BOSTON UNIVERSITY

College of Business Administration

THESIS

Federal Farm Loan System

and

Subsequent Developments

by

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INTRODUCTION

In the years since the founding of the United States the country has changed from a nation of farmers to a nation in which only one-fourth of the population lives on farms. As late as 1870 more than half of the gainfully employed in the United States were in agriculture; by 1930 the proportion had fallen to a little over a fifth.

This change has been due to a variety of causes. There has been an expansion of commercial and distributive services as manufacturing and processing took precedence over cultivation of crops and extraction of natural resources from the earth. A division of labor has developed in which farmers concentrated on raising foodstuffs and fibers while city workers took over many of the other tasks formerly performed on self-sufficient farms. An increase has taken place in services of transportation, communication, and government which the existence of large urban areas made progressively necessary. Underlying all these has been the advance of technology and invention.

This general transition from an agricultural to an industrial nation is a normal development and does not in itself warrant national programs to assist agriculture. There are, however, a number of factors, some inherent in the present economic structure and some historical, which have operated to throw agriculture out of adjustment with the rest of the economy and to thrust upon it a disproportionate

burden of readjustment. The inability of agriculture to make this readjustment as part of its normal operations is evidenced in many ways.

On either a total or per capita basis rural money incomes are low in comparison with urban money incomes. This lower level of rural as compared with urban income is traceable, in part, to the smaller proportion of farm population in the productive age group. Security, however, although on a standard of living lower than the city standard, is apparently greater on the farm than in the city. This is attested by the large-scale movement from industrial to rural areas during the depression.

Further evidence of the need for adjustment is to be found in the continuous loss of soil fertility and actual physical destruction of the soil itself. These soil losses are attributable partly to purely individualistic competition in the sale of soil fertility. To some extent, soil losses are also a natural result of unfortunate systems of land tenure, and large fixed charges contracted for during land booms. Soil destruction is due partly to the low level and instability of farm income which have frequently made it difficult or impossible to maintain soil resources.

Evidence of the unusual difficulties of agriculture is to be found also in the recurrent farmer movements. The weakened position of agriculture as compared to industry was

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Evidence of the unusual difficulties of agriculture is to be found also in the recurrent farmer movements. The weakened position of agriculture as compared to industry was

apparent after the Civil War. The Granger movement of the 1870's with its demand for the regulation of the railroads and for antitrust legislation, and the Populist movement of the 1890's with its demand for currency reform, reflected the pressure on agriculture of systems of transportation, distribution, and credit dominated by the non-agricultural groups. The acute disadvantage of agriculture following the World War galvanized the agricultural group into new types of action. The cooperative movement was extended in an effort to give farmers some of the types of advantages enjoyed by industrialists through the device of the corporation. The farm organizations, new and old alike, became increasingly concerned with the collective aspects of agriculture's problems.

The factors which underlie the difficulties of agriculture and which have made it advisable to take steps for positive assistance to agriculture may be outlined as follows:

In the first place, production in many commodities tends to be highly irregular. This irregularity flows from such influences as the relative inelasticity of the demand for farm products and from the lack of organization of the farm business.

Another factor giving rise to problems of agricultural adjustment has been the decline in foreign outlets for

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Another factor giving rise to problems of agricultural adjustment has been the decline in foreign outlets for

farm products. In the latter half of the nineteenth century agricultural exports were large and were a vital factor in the economic advance both of the United States and of western Europe. Exports of food and raw materials helped to industrialize Europe. These exports also enabled the United States to repay the large foreign debt which it had contracted in the period prior to the attainment of American industrial maturity.

The trend of agricultural exports turned definitely downward at the beginning of this century, but this decline was offset by the expansion of the domestic demand for agricultural products, and no serious problem of adjustment appeared. The World War, however, caused an enormous expansion of American agricultural exports which could not be maintained because of the temporary nature of the foreign demand, the rise of new policies of agricultural self-sufficiency abroad, and the new creditor position of the United States.

A further source of agricultural disadvantage is to be found in the relations between agriculture and industry. Agriculture has for many years been handicapped by lack of protection equal to that afforded industry by the tariff. Prices of manufactured goods have been high as compared to those of agricultural commodities, and transportation rates and middlemen's margins have been increased. The result has

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been that the prosperity created for industry has left agriculture a relatively unpromising field for enterprise. Even when the measures of agricultural assistance such as technical research, education, and credit are thrown into the balance, the one-sidedness of our protective policies is manifest. The net effect has been to shift an excessive burden of economic adjustment upon agriculture.

Up to the beginning of the post-war period it seemed that governmental assistance to agriculture in the United States had two broad objectives. These were: 1. Rapid exploitation of the natural resources of the country; and 2. Facilitation of the competitive process on the theory that active and free competition between individuals would best serve the economic welfare of the Nation as a whole.

The land policies of the Federal Government were the first development in the relationships between government and agriculture. The Homestead Act of 1862, and its modification in 1864, permitted actual settlers who lived on the land and cultivated it to gain title to tracts up to 160 acres. There were numerous supplementary acts.

Along with its land policies, the Government lent its aid to the improvement of crops, livestock, and soils. This aspect was particularly important in the period 1862-1887.

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From about the turn of the century to the post-war period, great emphasis was placed upon the protection of both

farmers and the general public against unfair trade practices. Closely related to regulation designed to protect farmers and consumers against abuses arising in the marketing and processing of farm products were attempts to curb big business. This regulation was undertaken chiefly under the railroad and antitrust legislation which stretched from the period of the Granger agitation to the World War.

Beginning in 1922 the Department of Agriculture moved beyond the point of bringing improved methods of production to the farm and began the dissemination of economic information which would enable individual farmers to make adjustments in the light of forecasts of prices of farm products.

Of particular importance since just before the World War have been the activities of the Federal Government with respect to agricultural credit. Here the broad objective has been to make credit available to farmers at rates comparable to those secured by commercial and industrial borrowers and to establish institutions adapted to the peculiar credit needs of agriculture.

The farm cooperative movement in the United States has been of long duration and has embraced a diversity of objectives which may be summarized under four broad categories. These are: 1. Reduction of wastes in the marketing system; 2. Improvement of the product marketed, through

standardized production, grading, and branding; 3. Development of bargaining power by groups of farmers to offset that of buyers, particularly middlemen, and to bring about higher prices for agricultural products; and 4. Adjustment of production to demand.

The Agricultural Marketing Act of 1929, which set up the Federal Farm Board, had as its broad objective the placing of agriculture on a basis of economic equality with other industries through the orderly production and marketing of farm products. The Federal Farm Board encouraged co-operatives to unify the process of agricultural marketing with the support of loans from a 500-million-dollar revolving fund in the hands of the Board. At the outset the Board apparently viewed the development of a system of cooperative marketing associations as its principal function.

With the deepening of the agricultural depression, and its final development into a major factor in the general economic collapse, all of the currents which had been flowing in the direction of the formation of a strong agricultural policy converged. The r esult was the enactment of the Agricultural Adjustment Act of 1933.(1)

Pharaoh of Egypt thought so highly of Joseph for inventing the ever-normal granary plan of crop control that

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(1) United States Department of Agriculture, Agricultural Adjustment Administration, Agricultural Adjustment, 1937-1938 (Washington, 1939), pp. 1-7

he freed him from jail, and made him governor. Although the scheme worked well enough then, it has taken thousands of years, millions of dollars and an immense amount of study to put it on the grand scale. After four years Secretary Wallace finally succeeded in getting Congress to adopt the plan in the Agricultural Adjustment Act of 1938. Also in 1938 his emissary to the International Wheat Conference in London ambitiously proposed putting the granary plan on a world-wide basis.[1]

The necessity for action too long delayed has led to a period of experimentation which promises to lead us further toward proper solutions.[2]

(1) Time, Crops (July 25, 1938)
(2) United States Department of Agriculture, Agricultural Adjustment Administration, Agricultural Adjustment, 1937-1938, (Washington, 1939) pp. 1-9

EARLY HISTORY

Disposition of the Public Lands

In the disposal of the public domain two distinct policies have been followed by the Federal Government. According to the first, which continued from about 1784 to 1820, it was held that the lands should be used and sold for the sake of revenue, to reduce taxes, and to pay off the public debt. Under the second, which has been in effect from 1820 to the present time, the western lands were to be disposed of--sold or given away--to settlers and others in order to provide homes for the possessors and to develop the country. Since a rapid disposal of the public lands and immediate revenue were desired at first, it was provided in 1785 that the land be sold only in large quantities and at low prices; six hundred and forty acres was the minimum amount one person might purchase and the price was one dollar an acre. But since large purchasers received considerable reductions, the revenue barely sufficed to pay costs of survey and registration. A few large sales were made under this act, all in the present state of Ohio. By 1800 these amounted to one million, four hundred and eighty-four thousand and eighty-seven acres, or less than one hundred thousand a year.

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but to concentrate the holdings in the hands of a few. The policy was accordingly modified in 1800.

The Act of 1800 and subsequent acts permitted the sale of the land in minimum tracts of one hundred and sixty and three hundred and twenty acres, on credit, at the fixed price of $2.00 an acre. Under this installment system by which only one-fourth of the purchase price had to be made in cash, the remainder falling due in three annual payments, large sales were made, amounting in the next twenty years to about eighteen million acres. Many of the purchasers were speculators and many were settlers who assumed obligations beyond their ability, especially during the hard times from 1808 to 1815. After the latter year the great rise in the price of cotton to twenty-six and thirty-four cents a pound led to greater speculation in southwestern lands, the sales amounting to over five and a half million acres in the single year 1819. The fall in the price of cotton the following year and other causes led to a crash, and the arrears to the government on past due installments for land purchases grew to $21,213,350.[1]

The terms offered by the railways were clearly designed to bring in settlers rather than to produce a revenue. The prices asked were low. The average price at which the

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Burlington sold its entire Nebraska grant was $5.14 an acre, but it disposed of enormous tracts of land at as low a price as twenty-five cents an acre. The usual government minimum of $1.25 an acre and "double minimum" of $2.50 an acre were prices commonly asked and obtained.

The railway companies, moreover, granted credit of the most liberal kind. The Burlington advertised in a booklet two plans of payment, "short credit" and "long credit". By "short credit" was meant a three-year plan of payment, under which one-third of the principal fell due each year and the interest rate was ten per cent. "Long credit" was designed to meet the needs of the great majority, who had little or no cash. Small annual payments, the first two of which amounted only to the interest at six per cent, were to extend over a period of ten years. Settlers were generally advised to buy on this plan, since it would leave them free to use what money they had or could earn for the purchase of implements and for the improvement of their farms. Liberal discounts were usually obtainable for those who could pay cash or buy on "short credit", but bargains were always available for the man whose resources were small. The Burlington, in order to enable prospective settlers to examine land in advance of purchase, sold land-exploring round-trip tickets at three-fifths the usual fare and gave with each ticket a rebate certificate entitling the holder to a refund in case he

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The early policy of the government, that of land sales for the sake of revenue, gradually gave way to the second and permanent policy concerning the public domain. This is the system of land grants for actual settlement in small lots suitable for cultivation. By the act of 1820 sale for credit was abandoned and the price lessened to $1.25 an acre, while the minimum tract to be sold to one individual was reduced to eighty acres. The earlier system had been denounced by western men, who objected to the high price of the land, to the plan of installment selling and to the use of the public domain for government revenue. On the other hand, representatives of the eastern states had resisted any change in these provisions, since they feared that land values in the East would be

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The introduction of the steamboat upon western waters, the extension of cotton culture throughout the Southwest, and the greater demand for agricultural produce due to the growth in population led to a steady demand for land for actual cultivation and settlement. Workingmen began to see the possibility of using the public lands as an agency of social reform and as a means of providing homes for workers. They now began to demand, in their papers and conventions, that speculation stop and that the public domain be made available immediately to the whole people. Land reform became an important issue in the platforms of organized labor. During the years from 1825 to 1832 many doubtful schemes were introduced into Congress, for the most part by southern members, for disposing of the lands by sale or gift, for reducing the price to as little as thirty cents an acre, or for giving the disposition of the lands to the states.

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population pressed in, it tended in its haste to pass beyond the surveyed lands and to settle in the wilds before they had been opened to settlement. The public domain was not open to settlement until it had been surveyed and was offered for sale through land offices. As a matter of fact the pioneers did not wait for government surveys, but "squatted" on the land. Here they built houses and made improvements, all of which they were liable to lose when the land was offered for sale. For the benefit of such settlers the pre-emption system was developed. This was a guarantee to the settler of a prior right to purchase, at the established price, the land upon which he had settled. The settler was not to have competition of any sort, in order that he might not lose the value of his improvements. It was a concession to the western point of view and to the small holders. As time went on and the desirability of settling the western lands was more fully recognized, the "squatter" came to be regarded not as a law-breaker but as a brave pioneer.

The first act of this sort had been passed in 1801 to protect the settlers on the lands of the Miami Company, which had reverted to the government. Congress provided that all persons who had taken up land in the tract and made improvements should have first rights in the resale at a fixed price. Numerous other pre-emption acts were passed to care for special cases until 1830 when a general law was enacted,

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The price of the public lands had been fixed by the Act of 1820 at $1.25 an acre, but as the westward movement proceeded and the demand grew greater, the market value became higher than the government price. This fact, together with an inflated condition of the currency and loose banking methods, caused in the early thirties an outburst of land speculation seldom equalled in the United States.

Western lands had been steadily appreciating in value for some years. As credit and money became easier under the speculative fever of the time, those who were desirous of an easy and rapid increase of wealth sought eagerly to invest in these lands. Paper villages were laid out, lands were sold at greatly enhanced prices, often fifty times their original cost. The sales of public lands swelled rapidly, amounting to three million eight hundred and fifty-six thousand two hundred and seventy-eight acres for the year 1833, and to the enormous figure of twenty million seventy-four thousand eight hundred and seventy-one acres for 1836. The

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sales of 1834-36, some forty million acres, exceeded all that had been sold before.

Nor was the speculation confined to western lands. Owing to the extension of cotton culture, due to increasing demand and advanced prices, the value of southern plantations and city real estate rose enormously. The coal lands of Pennsylvania and the manufacturing cities of the East felt a similar impetus. Thus the assessed value of real estate in New York City rose from $143,732,425 in 1835 to $233,742,303 in 1836, and in Mobile from $4,000,000 in 1834 to $27,000,000 in 1837. After the panic of 1837 these prices fell even more rapidly.[1]

Farm Loans prior to and during the Civil War

Beginning in the year 1839, Congress made annual appropriations for the promotion of the interests of agriculture. No special bureau was established at this time, but the appropriations were put in charge of the Bureau of Patents. With such provision the Federal Government was satisfied until after the Civil War began.[2]

It was the doctrine "The land belongs to the people," together with the idea of using land settlement as the basis

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(1) Bogart, Ernest L., Economic History of The American People, (New York, 1931), pp. 262-285
(2) Wells, Louis Ray, Industrial History of the United States, (New York, 1924), p. 236

of national development, that led Congress to reduce gradually the price of public land and the minimum size of the tracts offered for sale and finally to enact the Homestead Law of 1862 and later amendments, under which two hundred thirty-four million acres of public lands, or almost one-sixth of the original public domain, passed into private hands and for which the Government received no cash return except a few incidental fees.(1) and (2)

Under previous land laws the Government had sold the public domain to settlers, but for thirty years the policy of giving the land away had been debated. Free homestead bills had been uniformly opposed by southern members in Congress because they realized that the settlement of the Northwest would thereby be stimulated and the balance between the free and slave states would be upset. The Republican Party had voiced the demands of the workers for free land by including a homestead plank in its platform and in 1862 it redeemed its campaign pledges by passing such a law. This was done without difficulty as the southern members had withdrawn from Congress. The fundamental principles of the act was the grant of a free homestead not exceeding one hundred sixty acres to the actual settler; after five years' residence

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(1) Agricultural Service Department, Chamber of Commerce of the United States, Federal and State Land Policies Affecting Agriculture, (Washington, 1931), p. 6

(2) See page 167.

of national development, that led Congress to reduce gradually the price of public land and the minimum size of the tracts offered for sale and finally to enact the Homestead Law of 1862 and later amendments, under which two hundred thirty-four million acres of public lands, or almost one-sixth of the original public domain, passed into private hands and for which the Government received no cash return except a few incidental fees. (1) and (2)

Under previous land laws the Government had sold the public domain to settlers, but for thirty years the policy of giving the land away had been debated. Free homestead bills had been uniformly opposed by southern members in Congress because they realized that the settlement of the Northwest would thereby be stimulated and the balance between the free and slave states would be upset. The Republican Party had voiced the demands of the workers for free land by including a homestead plank in its platform and in 1862 it redeemed its campaign pledges by passing such a law. This was done without difficulty as the southern members had withdrawn from Congress. The fundamental principles of the act was the grant of a free homestead not exceeding one hundred sixty acres to the actual settler; after five years' residence

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(1) Agricultural Service Department, Chamber of Commerce of the United States, Federal and State Land Policies Affecting Agriculture, (Washington, 1931), p. 6.
(2) See page 167.

the title passed, without charge, to the "homesteader". This was the logical outcome of the pre-emption system and has since been the accepted policy of the Government in disposing of the public lands until 1933.[1] The acquisition of a farm home, especially for those with little capital, was thus made easy and profitable; even while the war was in progress two million five hundred thousand acres were taken up under the Homestead Law, making over fifteen thousand farms of one hundred sixty acres each. In this connection it must be remembered that during the decade prior to the war railroads had been built as far as the Mississippi River at several points. Accordingly, when the war closed the southern markets, the western farmers were able to ship their products to the Atlantic coast by these east-and-west rail lines.[2]

The original Homestead Act of 1862 was passed at a time when agricultural settlement was centered in the fertile prairies of the Mississippi Valley. The act succeeded in its object of distributing farm land in this area to settlers in one hundred sixty-acre units, which at that time apparently were of an economic size for diversified family farming. Inadequate land classification, however, permitted

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(1) See page 167

(2) Bogart, Ernest L., <u>Economic History of the American People</u>, (New York, 1931), p. 433

the alienation from the public domain of thousands of acres of valuable timber land, which was entered under the Homestead Act as agricultural land.

Homesteads of one hundred sixty acres were too small for profitable operation in the semi-arid Great Plains, but the Homestead Act was not amended to provide for this situation until 1904, when the Kinkaid Act allowed six hundred forty-acre homesteads to be taken in western Nebraska. In 1909, the Enlarged Homestead Act made it possible for settlers to file on homesteads of three hundred twenty acres in any one of nine western states.

The problem of disposing of arid grazing lands was dealt with by Congress in 1916, when the Grazing Homestead Act, providing for six hundred forty-acre homesteads in western states, was passed. In general, this act is reported to have been unsuccessful. It has granted tracts of arid land altogether too small to support a family. Ranges have been broken up, only to be populated by poverty-stricken homesteaders. Many of the grazing homesteads eventually find their way, through various types of transactions, into large ranches.[1]

Numerous attempts have been made to modify the Homestead Act to meet the requirement of irrigation farming.

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(1) See page 167.

The Desert Land Act of 1877 was the first of these attempts. This act provided for the sale of six hundred forty acres of desert land at $1.25 an acre to a settler, with the stipulation that he irrigate it within three years. The acreage allowed one person, however, was too great for him to attempt to irrigate, and many of the entries made under the act were ostensibly for irrigation but actually for grazing.

The Carey Act, which donated irrigable land to the states under the condition that they arrange for its irrigation and cultivation, has disposed of about one million acres of public land, but several irrigation companies operating under this Act have failed. Under the Reclamation Act of 1902, the Federal Government finances the construction of irrigation works to reclaim arid land. In 1929, one million five hundred twelve thousand acres of crops were grown on Government reclamation projects and, in addition, the Government supplied water for irrigating one million two hundred thirty-four thousand acres on other projects. The total cost of the Government Reclamation projects has been $180,000,000, of which $39,000,000 has been repaid by settlers.(1) and (2)

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(1) Agricultural Service Department, Chamber of Commerce of The United States, Federal and State Land Policies Affecting Agriculture, (Washington, 1931)
(2) See page 167.

Condition of the Farmers after the Civil War

Whether tenants or proprietors, the post-war farmers were almost without exception in a chronic condition of abject poverty. Those who purchased land could do so usually only by means of deferred payments, which they met with difficulty. Those who were tenants were at best barely able to live on what they could make. Having started with nothing at the close of the war, both classes of farmers found it next to impossible to accumulate enough reserve to carry them from one harvest to the next. Therefore, they had to resort constantly to borrowing in one form or another.(1)

Although the method of advancing money and supplies on growing crops was practised in the South before the war, the necessities of planters after that event made its use characteristic of southern agriculture. Cotton factors advanced the capital necessary to revive the production of this staple, often borrowing from commission houses, and taking a crop lien on the growing crop of the planter. When falling prices resulted in the breaking up of the plantation system and the rise of a small tenant and freehold farming class, the system was extended. The lender was now, however, the merchant and country storekeeper, who was personally familiar with the small borrower and who could, moreover,

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(1) Hicks, John D., The Populist Revolt, (University of Minnesota Press, 1931), p. 39

exercise constant supervision over the crop. Wholly economically necessary at first as a means of securing the needed capital, this practice of agricultural credit soon resulted in a system of peonage of the debtor farmer to the merchant who became his creditor, under which the debtor was kept almost in a state of serfdom working for his creditor until his debts were paid. All supplies must be purchased through the creditor and the crops must be sold through him, on both of which transactions lucrative commissions were charged in addition to frequently usurious rates of interest.

This system had certain undesirable effects. Since cotton was the most marketable crop and would always sell for cash, the lender insisted that the farmer concentrate his efforts upon cotton growing. In the second place, since the farmer was compelled to buy all his supplies from the lender's store, he was discouraged from growing his own corn or bacon since this would diminish his purchases. As Hammond put it, "The raising of corn would not only give a less marketable crop into the hands of the merchant, but it would eventually lose him his customers, for the raising of his own supplies would release the farmer from the necessity of doing business on a credit basis." Diversification of farming and even rotation of crops were thus prevented in the South.[1]

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(1) Bogart, Ernest L., Economic History of the American People, (New York, 1931), pp. 310-311

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Reformers who sought to relieve the agricultural distress in the South did not confine their efforts to the preaching of diversification. Lack of a reasonable system of finance had much to do with the situation, and remedies for this condition were sought after eagerly. One that aroused much hope was the entrance into the South during the early eighties of loan companies not unlike those that were doing such a thriving business in the West. The merchants who supplied the South with credit preferred the crop lien as security, and they took real estate only in case of necessity. The loan companies, on the other hand, proposed to lend money generously on land at interest rates as low as seven or eight per cent. This appeared to offer a chance of emancipation from the credit system, at least for those who owned their own farms. But a short trial proved that these loan companies were of comparatively small value. They offered long-time credit, five years being the usual period for which the loan ran, whereas the southern farmer needed short-time credit, loans for a few months to carry him through to the end of the crop season. Moreover, the loan companies charged fees and commissions that ran the actual rate of interest far beyond the nominal rate of seven or eight per cent. And for the countless numbers of tenant farmers who owned no property in land, the loan companies had nothing

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whatever to offer. Clearly the search for better credit facilities for the South could not end here.

As late as 1895 the southern banking system was still regarded as highly imperfect and wholly incapable of handling the total credit load of the South. In that year there were only four hundred and seventeen national banks in the ten states of the cotton belt, and more than half of them were in Texas. State and private banking institutions were correspondingly rare. One hundred and twenty-three countries in the state of Georgia were without any banking facilities whatever.(1)

It chanced that the money needed by the western farmers could be supplied without much difficulty by eastern investors, who, as the hard times of the seventies gave way to the prosperity of the eighties, found their savings increasing by leaps and bounds. The man who had only a small sum to invest was especially attracted by western mortgages on which he could easily obtain high interest rates--from six to eight per cent on real estate and from ten to eighteen per cent on chattels. Such an investment seemed the more attractive because of the well-advertised rise in western land values. The competition of free lands, always

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(1) Hicks, John D., The Populist Revolt, (University of Minnesota Press, 1931) p. 40

before this time a potent cause of the low price of land, was now nearly at an end. Moreover, crop yields in the West over a period of years had averaged high, prices were good, and collections were easily made. The idea spread throughout the East that savings placed in this class of investments were as safe as they were remunerative. Money descended like a flood upon those who made it their business to place loans in the West.

In the early days of farm borrowing the local mortgage broker was practically alone in the field. The farm mortgage broker had his office in the center of an agricultural community and seldom extended the scope of his operations beyond the limits of a single county. His function was merely to bring the farm borrower and the city lender together; he did not advance any funds to the farmer or indorse the mortgage, which was made out directly to the purchaser. The profit of the farm-mortgage broker was derived from the difference between the rate of interest which the farm borrower paid and the rate at which the mortgage was sold to the investor. In the early days before the development of competing mortgage companies the brokers commonly secured very large profits. But as the farm-mortgage business became more extensive, mortgage companies operating on a much larger scale and employing somewhat different methods have assumed a position of major importance.(1)

(1) Moulton, Harold G., The Financial Organization of Society, (Chicago, 1921), p. 667

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(1) Moulton, Harold G., The Financial Organization of Society. (Chicago, 1921), p. 267

Banks were numerous throughout the West, and they did a flourishing business, but much of the work of lending the savings of the East to the borrowers of the West fell upon the mortgage companies organized for the purpose. These central offices were in such places as St. Paul, Omaha, Kansas City, St. Joseph, and Denver, with local agents and field men distributed throughout the surrounding territory. There were also many smaller companies and many individuals who acted as loan agents on their own responsibility. Estimates of the number of corporations engaged in the two states of Kansas and Nebraska vary from one hundred and thirty-seven to about two hundred. The mortgage company made its money from the margin between the relatively low interest rates that the eastern investor would accept and the high interest rates that the western borrowers were willing to pay. There were also commissions for securing the money and bonuses for the more successful a gents. The large company cared little what its local representatives did, so long as it could count on an interest return from the investment of from six to eight per cent on a five-year loan. If the local agents could get more they were welcome to the difference between what they got and what the company required of them. Many "wild cat" organizations rose and flourished. So great became the craze for western mortgages that these companies, however free with their funds they might be, seldom lacked money to invest.

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Agents in Kansas with a great quantity of money on their hands drove about the country in buggies, soliciting patronage and freely placing loans on real estate up to its full valuation, pointing in justification to the steadily mounting price of land. The companies tended almost without exception to lend too much on each farm. It was not their own capital that was at stake but the capital of distant investors, and the more they lent the more they made for their own profits.

It was inevitable that this avalanche of credit should tempt the new West to extravagance, overinvestment, and speculation. Farmers could rarely resist the funds proffered them. With bumper crops, high prices, and rising land values, it appeared wise to borrow money for enlarging holdings, improving breeds of stock, and purchasing the latest machinery. The federal census figures of 1890 relating to real estate mortgages furnish convincing evidence of what went on. They show that Kansas, Nebraska, North and South Dakota, and Minnesota, in spite of the comparative poverty of their inhabitants, ranked well toward the top of the list of states in the amount of per capita mortgage debt. The ratio of the estate mortgage debt to the true value of all taxed real estate was higher in Kansas than in any other state except New York, and none of the other states mentioned ranked lower than ninth. In Kansas, also, where the amount of speculation was greatest and the figures were always most extreme,

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the new mortgage debt incurred per capita in the year 1885 was more than double and in 1887 more than treble, the amount of 1880; but some of the other frontier states were not far behind. In Kansas and North Dakota there was in 1890 a mortgage for every two persons, and in Nebraska, South Dakota, and Minnesota, one for every three persons--more than one to a family in all five states. In certain counties where seventy-five per cent of the farms occupied by their owners were mortgaged and where the total mortgage debt was about three-fourths of the true valuation of all the land taxed, most of the mortgaged farms were mortgaged for all they were worth. The census statistics show that Minnesota, the Dakotas, and Nebraska were all better off than Kansas, approximately in the order named, but that throughout this region mortgages had multiplied in number and amount far beyond any reasonable limits.(1)

The mortgage companies conducted their operations on a much larger scale than did the brokers. Through a system of local agents they solicited mortgages throughout an entire state and in some cases in more than one state. They also utilized the independent mortgage brokers in getting in touch with borrowing constituents.

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(1) Hicks, John D., The Populist Revolt, (University of Minnesota Press, 1931) pp. 37-41

In making a mortgage loan under this system the prospective borrower filled out an application blank furnished by the local agent. This application usually called for information upon the following points: (1) the amount of the property to be mortgaged that was under cultivation; (2) the date of purchase; (3) the amount of present incumbrance, if any; (4) the nature and cash value of improvements that had been made on the land; (5) the present cash value of the land; (6) crops of the previous and current year; (7) the rental value; (8) the location of the land with respect to railroads, towns, schools, churches, etc.; (9) the assessed valuation and the amount of the tax thereon; (10) the amount of live stock of the premises; (11) the total valuation of the borrower's property, both real and personal; (12) the state of the title to the property; and finally, (13) the purpose for which the money was being borrowed. The local agent of the mortgage company and two or more disinterested local residents were required to indorse on the application blank their sworn appraisal of the value of the land. Upon receipt of the application the mortgage company sent an agent to inspect the property and make a report. If this report was favorable, an agreement was reached as to the rate of interest and the commission, and the mortgage was then ready for sale. The rate of interest was usually the lowest that would insure the sale of the mortgage at par in the financial centers.

The commission received by the mortgage company usually took the form of a lump sum deducted from the proceeds derived from the sale of the mortgage. But another common method was to make the commission payable, in the case of a five-year mortgage, in ten semi-annual installments secured by the borrower's notes and a second mortgage on the property. Under this method, in case any installment was not paid, the entire commission automatically became due. The commissions received by the mortgage companies were large, particularly in the earlier days; for many years such companies never received commissions of less than ten per cent of the amount of the mortgage. Real estate mortgages usually ran for either three or five years; and since the mortgages were very commonly renewed, additional commissions were commanded for securing extensions. Finally, in addition to the commission received by the mortgage company, the local agent or broker charged the borrower whatever the traffic would bear.

In making loans the mortgage companies followed a method somewhat different from that of the local farm loan brokers. The mortgage was commonly made out, not to the purchaser direct, but to the mortgage company, which assigned it to a purchaser when one was found. The mortgage companies sometimes guaranteed the mortgages which they handled, and

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sometimes they did not. In the event of a foreclosure of a guaranteed loan, the company took possession of the property and paid the borrower out of its own funds, recovering through the sale of mortgaged property. In the case of non-guaranteed loans, there was no liability upon the mortgage company, but, nevertheless, it often assumed the debt and took possession of the land. The purchaser of the mortgage was usually agreeable to such a procedure, for it relieved him of the trouble involved in making a settlement. Large profits have been made by the mortgage companies from the sale of land taken under foreclosure proceedings.

There were numerous provisions designed to protect the purchaser of the mortgage. The borrower was required to assure the payment of the taxes and to keep the buildings insured for the benefit of the mortgagee. In case of a default in the payment of interest, or in the performance of any of the agreements, the lender might declare the entire debt immediately due. If the borrower succeeded, in such a case, in securing funds with which to make up arrears and have the loan reinstated, the mortgage company received a six per cent further commission or bonus for its service in reinstating the loan.

Many mortgage companies issued debenture bonds. Instead of assigning the mortgages directly to investors many companies issued their own debentures, secured by the mortgages

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which the company had purchased. Such mortgages were assigned to a trust company, which held them for the protection of the purchasers of the debentures. The purchaser also had a creditor claim against all the assets of the mortgage company, which were usually invested in mortgages. The holder of a mortgage that was guaranteed by a mortgage company was similarly protected by the company's own investments.

There were some serious weaknesses in the farm-mortgage system. The biggest source of danger in the making of farm loans lay in the local agency system. Their earnings depended on their making loans, and the size of the commission depended upon the size of the loan. Local agents and examiners from the home office were sometimes bribed to overvalue the land. The sworn appraisement by householders resident in the county where the land lay by no means secured in every case what it was meant to secure. The dishonest borrower always knew who in the community entertained the wildest notions about the future of his county or town, and this man made the sworn appraisement. There was a wide difference between the appraisal made by really honest men "for loan purposes", and the appraisal made by the same men in their actual buying and selling.

While the majority of the farm-mortgage companies were managed by men of high integrity and conducted on sound

business principles, the large profits obtainable in the business, particularly during periods of land speculation, led to the organization of many irresponsible and dishonest companies. Such companies offered very high rates on mortgages on which they gave their worthless guaranty. In order to secure large commissions, they made loans far in excess of the value of the land which was offered as security. Such practices resulted not only in inevitable los s to investors but also in discrediting the mortgage business in general.

Many of the farm mortgage companies have in recent years issued coupon notes and bonds in denominations convenient for the purchaser of small means, the mortgage being held "in trust" after the fashion of corporate mortgages. In some instances also, the bonds run for long periods of time, rather than for three or five years merely, in which event the amortization principle of paying off the mortgage is usually incorporated.

The farm mortgage companies have in recent years grown rapidly in number, size, and influence. They are now united in a Farm Mortgage Bankers' Association of America, composed of about two hundred members, including banks and trust companies with mortgage departments. The purpose of the association is to raise the standard of mortgage-bank

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practice, promote constructive farm-mortgage legislation, and oppose legislation regarded as inimical to their own and to the general welfare.(1)

Commercial and savings banks had made many loans to agriculture without collateral security. Farm-mortgage indebtedness had assumed very large proportions in the years following the Civil War. According to the census report of 1890, out of a total number of 3,142,746 farms, cultivated by their owners, 886,957 were subject to incumbrance. There were in addition 1,624,433 tenant farms for which no data were collected. The aggregate value of the incumbered farms was $3,054,923,165; and the outstanding mortgages aggregated $1,085,905,960, the three states of New York, Iowa, and Illinois together having almost one-third of the total. The ratio of mortgage indebtedness to the value of the farm varied among the different states, ranging from 24.23 per cent in Utah to 54.54 in Mississippi, and averaging 35.55 per cent for the country as a whole.

After the war Congress pursued a policy of currency contraction which meant a fall in prices from the heights of the war inflation. Since the farmer was a producer and a debtor he was adversely affected by lower prices

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(1) Moulton, Harold G., The Financial Organization of Society, (Chicago, 1921), pp. 668-672

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and believed that one cure for his economic ills would be renewed inflation of the currency and higher prices. Needing capital to equip and stock his farm if not to buy it, the farmer was accustomed to borrow from the banks or from eastern capitalists; as prices of his products fell he was frequently unable to meet the interest payments and had his mortgages foreclosed. The bankers and the capitalists constituted for him a vague"money power" which he distrusted and hated. Even if he succeeded in keeping his land and in meeting his obligations, the western farmer was convinced that the profits on his grain and other products were absorbed by high railroad charges or by middlemen who stood between him and the consumer. He therefore demanded lower railroad rates and a reduction of handling charges. The tariff raised the prices of the articles which the farmer bought, but did not help thim obtain a better market for the things which he sold. And finally he felt aggrieved because of the high and unequal taxes and the waste and corruption in governmental circles.

The Granger movement was the dissatisfied farmers' first organized effort to remedy these various ills by separate political action. This movement had its origin in the formation by O. H. Kelly in 1867 of the "Patrons of Husbandry", an organization which had for its primary purpose

the improvement of farming and of the social and economic position of farmers. As a means to economic betterment it sought to eliminate some of the middlemen's high charges by cooperative buying and selling, and to reduce railroad charges by obtaining legislation prescribing lower rates.

The only outlet for the large agricultural surplus seemed to be in foreign markets, and these could not be reached by the western farmer because the railroad charges absorbed all his profits. The so-called Granger laws passed by Illinois, Iowa, Wisconsin, and Minnesota were intended to establish uniform and reasonable rates for transporting and warehousing grain and other products and to require the publication of rate schedules. Although the railroads at first refused to obey these laws, the Federal Supreme Court in 1875 in the important case of Munn vs. Illinois upheld their constitutionality and the power of the state to regulate the charges made by a common carrier. The real gains to the public from these decisions came later, for as a result of the panic in 1873, two-fifths of the railroads of the country were in the hands of receivers and the immediate problem was not low rates but rates that would permit the roads to survive.

The next step was the formation in 1876 of the Greenback Party, which demanded a repeal of the Resumption

the improvement of farming and of the social and economic position of farmers. As a means to economic betterment it sought to eliminate some of the middleman's high charges by cooperative buying and selling, and to reduce railroad charges by obtaining legislation prescribing lower rates.

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Act,the abolition of bank notes, and the substitution of legal tender paper money issued directly by the Government. Many of the farmers were attracted to this movement, which promised higher prices by inflating the currency. Checked by President Grant's veto of the Inflation Bill of 1877, the Greenback Party steadily lost ground and disappeared after the election of 1884. The demand for cheap money was not so easily disposed of, however, and it found expression in the Bland-Allison Silver Act of 1878 and the Sherman Silver Purchase Act of 1890, both of which required the Secretary of the Treasury to purchase each month for coinage into money a certain amount of silver; since this provided for some inflation of the currency, or at least a stoppage of contraction, it found general support among the western farmers.

In the arguments for these acts much emphasis was placed upon the burdens of the farmers. The increase in mortgage indebtedness was greater than the increase of wealth derived from agriculture; in Kansas sixty per cent of the taxed acreage was under mortgage in 1890, in Nebraska fifty-six per cent, and in Iowa forty-seven per cent.(1)

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(1) Bogart, Ernest L., Economic History of the American People, (New York, 1941), pp. 511-514

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(1) Bogart, Ernest L., Economic History of the American People, (New York, 1941), pp. 511-512.

The interest rates that prevailed in many sections of the country were very high--in the view of the farmer exorbitantly high--while the commissions, legal fees, and renewal charges greatly increased the actual cost of the funds secured. This situation, together with the agricultural depression that prevailed more or less continuously from the end of the Civil War until the late nineties, was in no small measure responsible for the greenback and free-silver movements of that period. While the general prosperity that began in 1897 and continued almost uninterruptedly for a decade served to quiet for a time the farmers' discontent with monetary conditions, there nevertheless remained a deepseated conviction that agriculture was seriously handicapped by virtue of inadequate credit facilities.(1)

The census report of 1910 indicated that, notwithstanding the great improvement in agricultural conditions that came with the era of rising prices beginning in 1896, the total mortgage indebtedness in 1910 stood at $2,293,000,000, an increase of 110 per cent in twenty years. In 1915 the United States Department of Agriculture, computing on the

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(1) Moulton, Harold G., The Financial Organization of Society, (Chicago, 1921), p. 673

basis of the census figures of 1910, estimated that the total farm-mortgage debt of the United States then stood at $3,598,985,000. More recent estimates have placed the total in the neighborhood of $4,000,000,000. These increases in farm indebtedness since 1890 have been mainly incurred in financing the purchase and improvement of agricultural property.(1)

The problem of credit for agriculture has assumed growing importance since the early part of this century. This is due to the marked changes that have taken place in the farming industry. Free lands have all but disappeared, and increasing land values, together with more intensive methods of farming, and the development of cooperative marketing have made it necessary for the farmer to acquire larger working capital.

While these demands for credit have been rapidly growing, credit facilities for the farmer until recently have lagged materially behind. Until within the last decade the farmer has had to look to commercial banks and other private agencies for his credit.(2)

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(1) Hicks, John D., The Populist Revolt (University of Minnesota Press, 1931), p. 40

(2) Wright, Ivan, Readings in Money, Credit and Banking Principles, (New York, 1926), p. 833

FEDERAL RESERVE ACT

Change in National Bank Act

One handicap under which the farmer labors is the difficulty which he has to borrow money to finance his agricultural operations. The need of capital has grown as the price of land, equipment, and labor increased. Capitalists, however, have not been attracted by farm mortgages for farmers often require long-time notes because they cannot always pay the interest promptly and because they often wish to pay off the principal in small installments. Farmers, therefore, have always found it difficult to finance their projects.(1)

Federal Reserve Banks and Agricultural Paper

The National Bank Act did not permit national banks to loan on the security of real estate mortgages. However, under the terms of the Federal Reserve Act of December 23, 1913, national banks may lend money on farm mortgages.(2) This act makes a special exception in favor of agricultural paper secured by warehouse or other similar receipts, by permitting its rediscount when the maturity is not longer than six, or, since March 1923, nine months, whereas the time limit for other kinds of paper is ninety days. It has been found, however, that the American farmer needs credit in connection

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(1) Wells, Louis Ray, Industrial History of the United States, (New York), 1924), p. 49

(2) Hicks, John D., The Populist Revolt, (University of Minnesota Press, 1931), p. 416

with the production and marketing of staple crops and live stock for even longer than nine months.[1]

An insistent agitation for the reduction of rates on agricultural loans and for an improvement in the general conditions on which credit is extended to farmers began the movement for the establishment of a "panic-proof" commercial banking system; an improved agricultural credit system appeared to be a necessary complement. The agitation was given a great impetus by the appearance of a number of articles, which indicated that farmers in many sections of the country were paying from eight to twelve per cent for money, as contrasted with rates in our industrial centers of only four or five per cent.

Although much of the agitation on the subject of rural credits is due to false assumptions and to an inadequate grasp of the principles governing the rates of interest on different classes of loans, there were unquestionably high rates of interest; while on the other hand the short term for which mortgages were made commonly necessitated the payment of additional legal fees and renewal commissions, for which there was no sound economic reason whatever.

As a means of affording relief numerous proposals were advanced, the most popular of which was the making of

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(1) Seager, Henry R., Practical Problems in Economics, (New York, 1923), p. 370

Government loans direct to farmers at merely nominal rates of interest, one or two per cent. The doctrine that the Government should do something for agriculture, the nation's basic industry, always found many eager adherents. Other ideas eventually prevailed, however, and the advocates of self-reliance and self-help won the day. This act authorized the Federal Farm Loan System, modeled after the Federal Reserve System.[1] and [2]

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(1) See page 71.

(2) Moulton, Harold G., The Financial Organization of Society, (Chicago, 1921), p. 673

FEDERAL FARM LOAN SYSTEM

Federal Farm Loan Act

Woodrow Wilson was elected President with a mandate containing heavy emphasis on internal reform, a series of policies, chiefly economic and all domestic, called by Wilson the "New Freedom", meaning freedom for the average man against big business and high finance.

In fulfillment of his domestic program, Wilson sponsored a bill reorganizing the banking structure of the United States into the Federal Reserve System, designed to frustrate what he and the Democrats called the "Money Trust". He brought about creation by Congress of the Federal Trade Commission, to prevent unfair methods of competition in business and to aid in executing the anti-trust laws. He initiated and pressed through Congress a Farm Loan Act setting up government and quasi-government banks to loan money to farmers at rates lower than six per cent (in practice four to five and one-half per cent) as against pre-existing rates of private local bankers sometimes twice as high.(1)

The Federal Farm Loan Act passed on July 17, 1916, marked the beginning of a new era in agricultural finance. In brief, the purpose of the law was, through an improved organization of credit facilities, to raise the credit standing of farm borrowers, to reduce commission and legal fees, to

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(1) Sullivan, Mark, Our Times, (New York, 1933), p. 59

lower and equalize interest rates, and to enlarge the supply of funds available for agricultural development. The law provided for the organization of (1) Federal Land Banks and National Farm Loan Associations; and (2) Joint Stock Land Banks.[1]

The law covers all conceivable cases in connection with loaning money on land and securing the loans by first mortgages. The law is in favor of the farmer.[2]

Federal Farm Loan Board

These banks were placed under a Federal Farm Loan Board of five, later seven, members, including the Secretary of the Treasury. This Board was given supervisory powers in its narrower field similar to those of the Federal Reserve Board.[3] The other members are appointed by the President, with the concurrence of the Senate; not more than two of these members can belong to the same political party. No member of the Board shall, during his continuance in office, be an officer or director in any institution, association or partnership engaged in banking or in the business of making land mortgage loans or selling land mortgages. The members of the

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(1) Moulton, Harold G., The Financial Organization of Society, (Chicago, 1921), p. 673
(2) The World Book, (Chicago, 1919), p. 5108
(3) Seager, H enry R., Practical Problems in Economics, (New York, 1923), pp. 367-370

Board are required to devote their entire time to the work; each receives a salary of $10,000 a year and his traveling expenses. One of the members is designated by the President as Farm Loan Commissioner.(1) and (2)

The Board supervises the chartering and organizing of Federal Land Banks, Farm Loan Associations, and Joint-Stock Land Banks, regulates interest rates and other charges on loans, supervises the issue of Farm Loan Bonds, conducts examinations of the banks in the system and publishes annual reports, which show the condition of the various farm loan institutions and presents such additional data as may have a bearing upon agricultural credit in general.(3)

The Federal Farm Loan Board was required to divide the United States into twelve districts, to be known as Federal Land Bank districts, to establish in each district a Federal Land Bank and to designate the city in which the chief office of the bank should be located.(4)

In creating these districts the organization committee endeavored to group together, as far as possible, states

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(1) The <u>World Book</u>, (Chicago, 1919), p. 5108

(2) See page 122

(3) Moulton, Harold G., <u>The Financial Organization of Society</u>, (Chicago, 1921), p. 673

(4) The <u>World Book</u>, (Chicago, 1919), p. 5108

of diverse character and development, as a means of minimizing the results of a crop failure in any one region. In determining the location of the Farm Loan Bank in each district the Board sought to secure (1) reasonable approximation to the geographical center of the district; (2) prompt and frequent train and mail service; (3) climatic conditions that would not impair the health of the officials; (4) congenial environment. As a rule the larger cities were not selected but rather those which had already shown an interest in agricultural development, or had been disappointed in not being selected as sites for Federal Reserve Banks.[1] and[2]

Federal Land Banks

The twelve Federal Land Banks were organized in March and April 1917 with a capital of $75,000 each, or a total of $9,000,000. The greater part of this capital, or $8,892,130, was subscribed by the Federal Government. As required by law, the original capital provided by the Government has been greatly reduced out of the proceeds of stock subscriptions by national farm loan associations and individual borrowers, so that on December 31, 1933, small amounts of the original Government stock remained in only two banks--$16,635 in the Federal Land Bank of Springfield and $65,308

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(1) Moulton, Harold G., The Financial Organization of Society, (Chicago, 1921), p. 674

(2) See page 126

in the Federal Land Bank of Berkeley. Under an amendment to the Federal Farm Loan Act approved January 23, 1932, the Secretary of the Treasury on behalf of the United States subscribed for $125,000,000 of additional capital stock in the twelve banks. This additional capital is to be paid off at par and retired in the same manner as the original capital stock of the banks. However, the stock subscribed by the Government under this amendment may at any time, in the discretion of the directors and with the approval of the Land Bank Commissioner, be retired in whole or in part; and the Land Bank Commissioner may at any time require such stock to be retired in whole or in part if in his opinion the bank has resources available for the purpose. The proceeds of all retirements of stock issued to the Government under the amendment are to be held in the Treasury of the United States available for the purpose of paying for other stock thereafter issued to the Government. Of the $125,000,000 of additional capital stock, $433,545 had been retired as of December 31, 1933, as required by law. With the exception of the capital stock held by the United States Government, the stock of the banks is owned chiefly by national farm loan associations.(1)

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(1) Statements of Condition of the Federal Land Banks, Joint Stock Land Banks and Federal Intermediate Credit Banks, (Washington, 1934), p. 3

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(1) Statements of Condition of the Federal Land Banks, Joint Stock Land Banks and Federal Intermediate Credit Banks, (Washington, 1934), p. 5

The law also provides that of the capital of the Federal Land Banks for which stock is outstanding in the name of farm loan associations twenty-five per cent must be held as quick assets, in the form of cash in vault, deposits in member banks of the Federal Reserve System, or in readily marketable securities approved by the Federal Farm Loan Board. Of these, not less than five per cent must be United States government bonds. Each Federal Land Bank--given conservative management in conformity with the law--is therefore practically certain to be in a position to meet its obligations as they mature. Certainly there would appear to be little chance that the system as a whole would not be able to meet its obligations in full.(1)

Federal Land Banks in 1932 had capital stock of $66,000,000, practically all of which was held by borrowers, either directly or through National Farm Loan Association. According to official statement, the banks had reserves against real estate, delinquent installments, etc., aggregating $19,000,000; legal and other reserves of $13,000,000; and undivided profits of $3,000,000. Total capital stock, reserves and undivided profits of the twelve banks totaled $101,000,000, and their bonds outstanding amounted to $1,170,000,000.(2)

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(1) Moulton, Harold G., The Financial Organization of Society, (Chicago, 1921). p. 680

(2) Agricultural Credit, Repor t of Committee, Chamber of Commerce of the United States, 1932, pp. 213-214

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(1) Moulton, Harold G., The Financial Organization of Society. (Chicago, 1921), p. 660

(2) Agricultural Credit, Report of Committee, Chamber of Commerce of the United States, 1932, pp. 213-214

The Federal Land Banks extend long-term mortgage credits to farmers upon the security of first mortgages on farm lands. The notes are drawn on an amortization basis for maturities of not less than five nor more than forty years. Most of the loans have been made for maturities ranging from thirty-three to thirty-six years, but many loans are written for shorter terms, such as twenty years or less. In Puerto Rico no loan can be made under the law for a longer period than twenty years.(1) The chief function of the Federal Land Banks was to lend money on mortgage to the co-operative national farm loan associations which in turn loaned it to their members.(2)

These banks are also authorized to make loans through state banks, trust companies or mortgage companies which act as their agents in places where there are no national farm loan associations.

The loans are made to farmers for the purpose of purchasing land, equipment, fertilizer, or livestock; to provide buildings; to improve farm land; and to liquidate general indebtedness. Loans must be secured by first mortgages upon real estate and may not exceed fifty per cent of the value of the security. They run from five to forty years

(1) Statements of Condition of the Federal Land Banks, Joint Stock Land Banks and Federal Intermediate Credit Banks, (Washington, 1934), p. 3
(2) Seager, Henry R., Practical Problems in Economics, (New York, 1923), p. 371

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(1) Statements of Condition of the Federal Land Banks, Joint Stock Land Banks and Federal Intermediate Credit Banks, (Washington, 1934), p. 3.
(2) Seager, Henry R., Practical Problems in Economics, (New York, 1923), p. 371.

with regularly scaled amortized payments. The maximum rate of interest charged the borrowers is six per cent.(1)

The mortgages provide for annual or semiannual installment payments which cover the accrued interest and in addition include an amount which is applied toward the reduction of the principal, the size of these installments depending, of course, on the term, the interest rate, and the amount of the loan. After the loan has run for five years, the borrower may make additional payments on the principal or pay off the loan in full on any interest date, and the banks usually grant the privilege of prepayment, under certain conditions, before the expiration of the five-year period.(2)

For the purpose of obtaining funds with which to make loans, a Federal Land Bank may issue bonds in an amount not exceeding twenty times its capital and surplus. These bonds are lawful investment for fiduciary and trust funds under the jurisdiction of the United States Government and eligible for investment by savings banks in most states. They are acceptable also to the United States Treasury as security for Government deposits, including postal savings. The bonds and the income derived therefrom are exempt from Federal, State, and municipal and local taxation.

(1) Agricultural Credit Report of Committee, Chamber of Commerce of the United States, 1932, p. 23
(2) Statements of Condition of the Federal Land Banks, Joint Stock Land Banks and Federal Intermediate Credit Banks, (Washington, 1934), p. 4

Each bank is primarily liable for the bonds which it issues. In addition, however, it is liable, upon presentation of farm loan bond coupons, for interest payments due upon any farm loan bonds issued by other Federal Land Banks and remaining unpaid in consequence of the default of such other banks, and every bank is likewise liable for such portion of the principal of farm loan bonds so issued as may remain unpaid after the assets of any such other banks have been liquidated and distributed.(1)

The maximum interest rate that may be charged by any Federal Land Bank is six per cent. In no event shall the rate charged to borrowers exceed by more than one per cent the rate of interest on the bonds issued by the banks themselves. If the Federal Land Bank should sell bonds bearing a rate of four per cent, it could not charge the farm borrowers more than five per cent. It is important to note in this connection that principal and interest were expressly exempted from all Federal, State, and local taxation. Legal fees and recording charges are also paid by the borrower; but they are much less in amount than under the old system of unregulated private lending.

When the farm loan system began operations, the bonds bore an interest rate of four and one-half per cent,

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(1) Statements of Condition of the Federal Land Banks, Joint Stock Land Banks and Federal Intermediate Credit Banks, (Washington, 1924), p. 4.

the farmer paying five per cent. The rise in interest rates during the war, however, made it necessary to raise the rates to five and one-half per cent, with the farmer paying six per cent, leaving, as before, one-half of one per cent to cover expenses incurred by the Federal Farm Loan Banks. At this figure the farmers were enabled to borrow at lower rates than could even high-grade industrial, public-utility, and other business enterprises.(1) and(2)

Since the Federal Land Banks were made jointly responsible for the payment of the bonds by whatever bank they might be issued, the bonds were equally salable whether issued by land banks near the financial center of the country or in the more remote districts. The system thus served not only to provide abundant funds for mortgage loans all over the country at more moderate rates of interest than had previously prevailed, but also to bring those rates approximately to a parity.(3)

The Federal Land Bank advances the funds to the Farm Loan Association and issues its own debentures known as "farm loan bonds", for sale in the general investment market. These bonds are issued only under specific authorization of the Federal Farm Loan Board. For purposes of

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(1) See pages 87 and 128.
(2) Moulton, Harold G., The Financial Organization of Society, (Chicago, 1921), p. 681
(3) Seager, Henry R., Practical Problems in Economics, (New York, 1923), p. 370

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(1) See pages 27 and 128.
(2) Moulton, Harold G., The Financial Organization of Society, (Chicago, 1921), p. 531
(3) Seager, Henry R., Practical Problems in Economics, (New York, 1923), p. 370

administration each district has a Farm Loan Registrar (corresponding to the Federal Reserve Agent of the Federal Reserve System), appointed by the Federal Farm Loan Board. When any Federal Land Bank desires to issue bonds, it must deposit the mortgages which have been taken from borrowers with the Registrar, to whom they are assigned in trust as collateral for the bonds.

The mortgage must always be a first lien on property owned by the borrower, and cannot exceed fifty per cent of the value of the land for agricultural purposes, and twenty per cent of the value of the permanent insured improvements. Incidentally, individual loans may not be for less than $100 or for more than $10,000 in amount.[1]

The land bank district numbers, the names of the twelve banks, their locations, and the district which each serves, are as follows:

1. Federal Land Bank of Springfield, Springfield, Mass.:
   Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, New York, Rhode Island, and Vermont.
2. Federal Land Bank of Baltimore, Baltimore, Md.:
   Delaware, District of Columbia, Maryland, Pennsylvania, Puerto Rico, Virginia, and West Virginia.

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(1) Moulton, Harold G., The Financial Organization of Society, (Chicago, 1921), pp. 677-678

3. Federal Land Bank of Columbia, Columbia, S. C.:
Florida, Georgia, North Carolina, and South Carolina.
4. Federal Land Bank of Louisville, Louisville, Ky.:
Indiana, Kentucky, Ohio, and Tennessee.
5. Federal Land Bank of New Orleans, New Orleans, La.:
Alabama, Louisiana, and Mississippi.
6. Federal Land Bank of St. Louis, St. Louis, Mo.:
Arkansas, Illinois, and Missouri.
7. Federal Land Bank of St. Paul, St. Paul, Minn.:
Michigan, Minnesota, North Dakota, and Wisconsin.
8. Federal Land Bank of Omaha, Omaha, Nebr.:
Iowa, Nebraska, South Dakota, and Wyoming.
9. Federal Land Bank of Wichita, Wichita, Kans.:
Colorado, Kansas, New Mexico, and Oklahoma.
10. Federal Land Bank of Houston, Houston, Tex.:
Texas.
11. Federal Land Bank of Berkeley, Berkeley, Calif.:
Arizona, California, Nevada, and Utah.
12. Federal Land Bank of Spokane, Spokane, Wash.:
Idaho, Montana, Oregon, and Washington.(1)

Each Federal Land Bank has seven directors who have heretofore been chosen as follows: Three "local"

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(1) Statements of Condition of the Federal Land Banks, Joint Stock Land Banks and Federal Intermediate Credit Banks, (Washington, 1934), p. 6

directors were elected by the National Farm Loan Associations of the district in which the bank is located, three "district" directors were appointed by the Federal Farm Loan Board to represent the public interest, and one "director at large" was selected by the Board from the three persons receiving the highest number of votes of all the National Farm Loan Associations in the district. The officers of each bank are elected by the directors and their compensation is subject to the approval of the Land Bank Commissioner.(1)

Every Federal Land Bank is required to have a subscribed capital of at least $750,000 before it can begin business. The capital stock is divided into shares of five dollars each, and it may be subscribed for and held by any individual, firm or corporation, or by the Government of any State or of the United States.(2)

Farm Loan Associations

Within the Federal Land Bank districts associations of ten or more farmers might be formed.(3) These organizations, numbering 4,852, were known as National Farm Loan Associations. These Associations were chartered by, and were

(1) Statements of Condition of the Federal Land Banks, Joint Stock Land Banks and Federal Intermediate Credit Banks, (Washington, 1934), p. 3
(2) The World Book, (Chicago, 1919), p. 5109
(3) Wells, Luis Ray, Industrial History of the United States, (New York, 1924), p. 491

under the supervision of, the Land Bank Commissioner.[1] Each National Farm Loan Association must have at least ten members, and it could not begin business until the loans applied for amounted to at least $20,000.[2] The stockholders were individually responsible, equally and ratably and not one for another, for all contracts, debts, and engagements of such association entered into prior to June 17, 1933, to the extent of the amount of stock owned by them at the par value thereof. Only those who wished to borrow on land which they intended to cultivate might be members of the association, and each member must subscribe for one share, five dollars, of land-bank stock for every one hundred dollars borrowed. This subscription was to serve as security for bad debts. When the Land Bank received the subscription, it chartered the association and delivered to it the sums desired by the borrowers, the cash being raised by the issuance of bonds. Repayments were made at stated intervals in such amounts as to take care of the interest and also the principal in from five to forty years.[3] When the borrower paid his loan in full, the bank retired its stock which was subscribed for by the bank at the time the loan was made. If the association had met its obligations currently

(1) Statements of Condition of the Federal Land Banks, Joint Stock Land Banks and Federal Intermediate Credit Banks, (Washington, 1934), p. 4
(2) The World Book, (Chicago, 1919), p. 5109
(3) Statements of Condition of the Federal Land Banks, Joint Stock Land Banks and Federal Intermediate Credit Banks, (Washington, 1934), p. 4

the bank remitted the proceeds of this stock to the association in cash. In such case, the borrower's stock in the association was retired and the proceeds thereof paid to him or credited on his indebtedness, if any, to the association. If, on the other hand, the association had not met its obligations currently, it might be necessary for the bank to withhold all or a portion of the proceeds of its stock and apply such proceeds as a credit on the association's indebtedness. The association retired its stock owned by the borrower, but it might be necessary to defer payment to him until it had funds available and had met its obligations.(1)

Each association chose a board of five directors, and they selected a secretary-treasurer, who was the executive officer of the association. His duties consisted of collecting and receipting for all money received, such as interest, partial payments on loans, and principal, and forwarding the same to the Federal Land Bank in the district in which the association was located. He was also required to pay to the borrower the money loaned him by the Federal Land Bank.(2)

When an application for a loan was submitted to a National Farm Loan Association, a loan committee of the

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(1) Statements of Condition of the Federal Land Banks, Joint Stock Land Banks and Federal Intermediate Credit Banks, (Washington, 1934), p. 4
(2) The World Book, (Chicago, 1919), p. 5019

association appraised the value of the property and made a detailed report on the project. No loan might be approved by the directors of the Farm Loan Association unless all three members of the loan committee recommended it; and before the loan was finally granted, it must also be approved by an appraiser of the Federal Land Bank from which the funds were to be secured.

In case the loan was approved, the Farm Loan Association subscribed for capital stock in the Federal Land Bank of its district to an amount equal to five per cent of the loan desired. The Farm Loan Association then indorsed a first mortgage, which it had received from the borrowing member, over the Federal Land Bank, thus assuming a secondary liability for the payment of the obligation.(1)

Any farmer desiring to borrow money under this law had to take the following steps:

1. Join the national farm loan association nearest to the locality in which he lived or in which his land was located, paying in five dollars for one of its shares for every $100 he wished to borrow.

2. Make application to the association for the loan, giving his personal note therefor, secured by a first mortgage on his farm.

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(1) Moulton, Harold G., The Financial Organization of Society, (Chicago, 1921), p. 677

3. The land is then examined by authorized members of the association and an appraiser of the Federal Land Bank. If the application was approved the bank forwarded the money to the secretary-treasurer of the association, who paid it over to the farmer. No commission or brokerage was charged the farmer, and the rate of interest could not exceed six per cent.

Advantages

The law conferred the following advantages on the farmer:

1. It gave him the privilege of borrowing money to the amount of his security without having to pay high commissions and a high rate of interest.

2. It provided for long-time loans of not less than five nor more than forty years--on a plan of partial payments each year, so that when the loan fell due the final payment would be small.

3. It recognized a number of purposes for which money might be borrowed. These were:

(a) For purchasing land for agricultural purposes.

(b) For buying equipment, fertilizers and live stock.

(c) For erecting or improving buildings.

(d) For discharging a prior mortgage.

Restrictions

The law placed the following restrictions around these loans:

1. It would not make a loan on land that was not occupied or tilled by the owner.

2. Loans could not be made for less than $100 nor for more than $10,000.

3. The borrower was required to spend the money for the purposes for which it was loaned to him.

4. The amount of the loan could not exceed fifty per-cent of the value of the land and twenty per cent of the value of the buildings and other insurable property on it.(1)

Loans might not be made to any one borrower in an amount exceeding $50,000, and loans to any one borrower might not exceed $25,000 unless approved by the Land Bank Commissioner. Prior to May 12, 1933, the maximum amount that could be loaned to any one borrower was $25,000. The bank might require an assignment of all or any part of the owner's rights under any mineral lease as further security for the loan. The land owned by the borrower must be a farming unit of sufficient aggregate size to produce an income adequate to maintain the applicant and his family, pay taxes, and meet the interest and amortization installments on his loan.(2)

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(1) The *World Book*, (Chicago, 1919), p. 5110
(2) *Statements of Condition of the Federal Land Banks, Joint Stock Land Banks and Federal Intermediate Credit Banks*, (Washington, 1934), p. 5

Loans were made only on the amortization principle. Added security was afforded to the lender by virtue of the fact that all loans must be discharged through amortization payments. Under this method each annual or semi-annual payment by the borrower must include, besides interest on the loan, such an additional fund as would amortize, or liquidate, the debt within an agreed period, not less than five years nor more than forty years. It was also provided that, after five years from the date of the loan, additional payments of $25, or multiples thereof, might be made; or, if the borrower desired, he might pay off on any installment date the entire remaining principal.

It will be seen that under this system the margin of security back of the loan gradually increased. The amortization system also had the very decided advantage that it enabled the borrower to pay off the loan out of current funds, with the result that he scarcely felt the burden of discharging the obligation. Under the old system of three and five-year mortgages, the farm borrower usually made no preparation for payment until the mortgage was about due; whereupon the preparation commonly consisted in merely making arrangements for a necessary renewal, involving substantial additional legal fees and commissions. Under the amortization plan the farmer was, in effect, compelled to save enough

each year to provide for the eventual liquidation of the debt. The amortization system was analogous to the provision of a sinking fund for the liquidation of corporate indebtedness.[1]

The income of the association consisted of fees collected from borrowers and applicants for loans, fees charged in connection with the transfer of mortgages and stock interests of borrowers, earnings received from invested reserves or other association-owned property, and dividends received by the association on its stock in the Federal Land Bank. The expenses consisted primarily of the costs of making appraisals of farms of applicants and compensation to its secretary-treasurer, who was the active officer. Reserves accumulated by the associations in accordance with the law aggregated approximately $2,300,000, of which about ninety-seven per cent was invested in Federal Land Bank bonds.[2] and [3]

Every farm mortgage bond was the obligation of all the Federal Land Banks. The bonds that were issued against the farm mortgages as collateral were the direct obligations not only of the Federal Land Bank that issued it but of the entire twelve land banks jointly. Since the investments of these banks necessarily consisted primarily

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(1) Moulton, Harold G., <u>The Financial Organization of Society</u>, (Chicago, 1921), pp. 678-680

(2) <u>Statements of Condition of the Federal Land Banks, Joint Stock Land Banks and Federal Intermediate Credit Banks</u>, (Washington, 1934), p. 4

(3) See page 129

of real-estate mortgages and since, for the system as a whole, these mortgages were drawn from every part of the country, it will be seen that the risks of the Federal Land Bank System were very widely distributed.(1)

Joint-Stock Land Banks

The Federal Farm Loan Act provided for the organization of Joint-Stock Land Banks with a minimum capital of $250,000 each. Joint-Stock Land Banks were privately organized institutions, chartered under the provisions of the Federal Farm Loan Act, approved July 17, 1916. The provisions of the Farm Loan Act required that each bank have a subscribed capital of not less than $250,000, one-half of which was required to be paid in cash before any business might be done. The stock of these banks was subscribed by the investing public, none being owned by the United States Government. Shareholders were individually responsible, not for one another, for all contracts, debts, and engagements of the bank to the extent of the amount of stock owned by them at its par value, in addition to the amount paid in and represented by their shares.

As in any other private corporation, the directors of each Joint-Stock Land Bank were elected by the stockholders, and the directors in turn selected the officers of the bank

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(1) Moulton, Harold G., The Financial Organization of Society, (Chicago, 1921), p. 680

and controlled its policies. The compensation of officers and employees, as in the case of Federal Land Banks, was subject to the approval of the Land Bank Commissioner.(1)

Joint-Stock Land Banks might lend to farmers directly, through their local banks, for the same purposes that loans might be made by the Federal Land Banks, for the same duration and upon first mortgages on real estate as security. No loan in excess of $50,000 or more than fifteen per cent of its capital and surplus could be made by a bank to a single borrower. Interest rates on loans might not exceed six per cent.(2)

Loans made by Joint-Stock Land Banks were required to be confined to purposes related to agricultural development. For the purpose of obtaining funds with which to make loans, a Joint-Stock Land Bank was empowered under the provisions of the Farm Loan Act to issue or obligate itself for bonds in an amount not in excess of fifteen times its capital and surplus. These bonds were declared by the Farm Loan Act to be a lawful investment for all fiduciary and trust funds and might be accepted as security for all public deposits. The bonds and income derived therefrom were exempt from Federal, State, municipal, and local taxation, but

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(1) Agricultural Credit, Report of Committee, Chamber of Commerce of the United States, 1932, p. 26

(2) Statements of Condition of the Federal Land Banks, Joint Stock Land Banks and Federal Intermediate Credit Banks, (Washington, 1934), p. 13

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(1) Agricultural Credit, Report of Committee, Chamber of Commerce of the United States, 1923, p. 25

(2) Statements of Condition of the Federal Land Banks, Joint Stock Land Banks and Federal Intermediate Credit Banks. (Washington, 1934), p. 13

the Government had assumed no liability for the payment of either principal or interest.(1)

The main difference between the Federal Farm Loan bonds and Joint-Stock Land Bank bonds lay in the fact that the Joint-Stock Land Bank bonds were an obligation only of the issuing institution, whereas the Federal Farm Loan bonds were the joint and several obligations of the twelve Federal Land Banks.

Under the provisions of Section 16 of the Farm Loan Act, before a bank might issue bonds it was required to deposit with the farm loan registrar approved first mortgages on farm lands or Government bonds not less in their aggregate amount than the amount of bonds to be issued. Before a mortgage loan could be so pledged, it was required to be approved as collateral security for bonds.(2) and (3)

<u>Growth of the Federal Farm Loan System</u>

The Federal Farm Loan System has had a substantial growth. On November 30, 1919, there were 3,890 associations in actual operation with an average number of members of twenty-seven and one-half. The total volume of loans was $282,007,781, giving an average per association of $72,495. The number of associations in 1920 declined, in part because there was already

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(1) <u>Statements of Condition of the Federal Land Banks, Joint Stock Land Banks and Federal Intermediate Credit Banks</u>, (Washington, 1934), p. 13
(2) Moulton, Harold G., <u>The Financial Organization of Society</u>, (Chicago, 1921), p. 682
(3) See page 144

in excess of one for every county in the United States, and in part because there was a tendency toward consolidation of smaller associations. The attack that was made in the courts upon the constitutionality of the rural-credit law also deterred the formation of new loan associations. Although they had been in operation only about three years, the Federal Land Banks had increased their capitalization from $9,000,000 to $20,000,000, and several of them had been able to pay dividends after meeting all expenses of organization and operation and setting aside substantial sums for the reserve accounts.

It is interesting to observe, however, that during the first year of its history the Federal Farm Loan System experienced serious financial difficulties requiring Government aid. The four and one-half per cent tax-exempt bonds could not be marketed, and, as a means of avoiding a financial collapse of the system, a request was made for Congressional appropriation of $200,000,000, the plea being effectively made that agriculture would otherwise be seriously handicapped in its efforts in connection with the war. Somewhat reluctantly Congress authorized the appropriation; and under it the Secretary of the Treasury purchased $136,000,000 of Farm Loan bonds from the Federal Land Banks.

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Results of the Federal Farm Loan System

The organization of the Federal Farm Loan System accomplished three important results: first, it equalized farm interest rates throughout the country; second, it enabled the farmers as a whole to borrow at lower rates than would otherwise have been possible; and third, it broadened the scope of the market for agricultural securities.

The equalization of interest rates was accomplished by means of the provision which made Federal Land B ank bonds the obligation of all the banks, jointly and severally. It will be readily s een that so long as every bond was the obligation of all the banks, the investor, resident in a financial center, had no good reason for discriminating against the bonds of any district, however remote it might be; from his viewpoint, the bonds of each district were exactly as good as those of every other district. It should be noted, however, that this did not apply to the Joint-Stock Land Bank bonds; for they were the obligations of the issuing bank only.

The lowering of farm interest rates was made possible by means of the cooperative borrowing and the improved organization of credit information for which the system provided. Under the private mortgage system the primary reason

for the high interest rates in remote agricultural regions was the lack of reliable information on the part of the lender as to the character of the borrower and the adequacy of the property offered as security. Because of the distance involved the lender had to rely upon the recommendation of the local farm-mortgage broker or upon the uncertain appraisal of the local agent of a mortgage company. Under the Federal Farm Loan System the lender relied upon the appraisal of a group of farmers organized in a cooperative farm loan association, checked by an independent appraisal of an agent of the Federal Land Bank.

Moreover, the payment of the loan did not depend upon the character and financial standing of a single individual borrower; for the loan was the joint obligation of a group of borrowers and of the twelve Federal Land Banks. Aside from the risks that inhered in distance and the consequent lack of reliable information there was, in fact, no good reason why a group of farmers, in Texas, borrowing $25 per acre on land valued at $50, should not secure funds at as low a rate of interest as a group of farmers in Illinois borrowing $100 an acre on land valued at $200. Under the Federal Farm Loan System such risks were eliminated.

Through the substitution of bonds of small denomination for the single mortgage of relatively large size, the

market for agricultural securities was broadened, and the volume of capital available for agricultural securities without unduly concentrating risks. Moreover, the development of high-grade agricultural bonds, which in time would no doubt possess a high degree of marketability, gave greater flexibility to the system of agricultural finance and thus served to stimulate agricultural investment. By means of the machinery provided by the rural credit legislation, the farmers of the country were in fact placed in a position where they could enter the investment market on better than even terms with corporate industry. Indeed, one might say that the rural credit system had, from the viewpoint of raising capital, "corporationized" agriculture.

Criticism of the Federal Farm Loan System

There were, as was to be expected, some minor criticisms of certain provisions of the Rural Credit Law and some of its administration by the Federal Farm Loan Board and Land Bank officials. The first was that the Farm Loan System did not accomplish the main purpose which the rural credit agitation had in view, namely, that of making it easy for farm tenants and other landless people to become farm owners. The second was that the provisions of the law exempting Federal Land Banks and Joint-Stock Land Bank bonds from taxation was perversive in its general economic and social effects.[1]

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(1) See page 122

Those who believed that the greatest evil of the American agricultural system was the rapid increase of farm tenancy naturally held that the Federal Farm Loan Act, which was primarily designed to assist existing land owners in making improvements upon their lands or in purchasing additional acres, had missed fire. Granted that the purpose of the Act was to decrease tenancy, this criticism was undoubtedly well founded; for the law certainly did not render essentially easier the acquisition of farm land by those who were dispossessed. On the other hand, there were those who contended that the Act was never intended to eliminate a farm tenancy, and that this evil must be remedied by other means.

The second criticism of the system--that against the tax exemption provisions of the law--would never have arisen except for the great rise in interest rates during the war and the passage of progressive income-tax legislation. It will be seen that, since the heaviest taxes were levied on the larger incomes, the tax exemption of bonds was of greatest benefit to individuals receiving the highest incomes. And the truth is that these bonds were being purchased in wholesale quantities by men of very large means, who thereby escaped the payment of a substantial portion of their Federal taxes.

It was further argued not only that the tax exemption provision played into the hands of the rich investor, but that it gave the farmer an advantage in raising capital to which his relative economic position did not entitle him. While the law was designed to develop an investment mechanism which would give the farm borrower an even chance with other borrowers to compete for capital in the investment market, it was not intended that he should be given an arbitrary differential in interest rates. It was merely the accident of the war and the change in interest rates that brought the present situation about.

The controversy over the tax exemption provision was very sharp, the constitutionality of the Federal Farm Loan Act having been challenged in the courts and bills having been introduced in Congress for the repeal of the law and the complete abolition of the system. Meanwhile, pending the decision of the courts as to the constitutionality of the Act, the Federal Farm Loan System practically ceased to function, as far as the taking on of new business was concerned.

While nearly all students of the problem are agreed that there was no sound reason for the maintenance of the tax-exemption provisions of the law, there were few who wished to see the rural credit system abolished, for it was believed

that the evils of the system could easily be remedied by Congressional amendments. While it was perhaps too early to make a final appraisal of the Federal Farm Loan System, the basic principles underlying the law were generally conceded to be sound, and it would be a very great misfortune if the system, as amended, were not given a chance to prove its merits under conditions less abnormal and fluctuating than those that have obtained from its inauguration.[1] and [2]

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(1) Moulton, Harold G., _The Financial Organization of Society_, (Chicago, 1921), pp. 682-690

(2) See page 122.

FARMERS' ORGANIZATIONS

BEFORE THE

WORLD WAR

Farm Bureau

The best evidence that the farmers had organized to cope with the problems of distribution in an effective manner was to be found in the farm bureau movement which has had a very remarkable development.

The farm bureau grew out of the development of county agents, an instrumentality resulting from various attempts by both State and Federal departments of agriculture to induce farmers to put into practice the scientific methods provided by agricultural colleges and experiment stations. Beginning in the South in 1906 and extended to the North in 1911, the county agent plan was established in every agricultural county during 1917-18.

County agent work seeks to improve agriculture and to better conditions on the farm. The agent must act as an educator, as a practical farmer and as an organizer. He is a source of information for the farmers of his county. He speaks at farmers' meetings, assists at institutes and holds field schools, but his most effective work is that of actual demonstration on farms. Where there are organizations, he cooperates with them; where there are none, he tries to form one. In the South these organizations formed by the agents are usually called "County Farm Councils", while in the North they are known as "County Farm Bureaus".

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A farm bureau is an association of people interested in rural affairs, which has for its objects the development within a county of the best system of agriculture, the establishment of community ideals, and the improvement of the well-being, prosperity, and happiness of country people. It seeks to accomplish its purposes through cooperation with the local, State, and National agencies which are doing extension work in agriculture and home economics.

The earlier conception of the farm bureau regarded it as an aid to the county agent in his work; more recently it has become a democratic, agricultural organization which studies the local needs and attempts to solve the local problems. The farm bureau is based upon the desire of the American farmers to unite for mutual self-help and cooperation and to get into closer touch with the governmental institutions and agencies of agriculture. It has been characterized as a clearing-house and as a chamber of agriculture corresponding to a city commercial club. It is non-political, non-sectarian, non-secret, and represents the whole farming population--men, women, and children.

Twenty-one of the thirty-three northern and western states had farm bureaus before the United States entered the war. On December 1, 1916, these twenty-one states had 287 farm bureaus with 98,654 members. To carry out its increased

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food production campaigns, the United States Department of Agriculture began a systematic organization of farm bureaus in the counties. On June 30, 1918, in twenty-nine states of the North and West there were 791 farm bureaus with 290,000 members. Three other states--Indiana, Oregon, and Washington--had county federations of farmers' organizations which functioned much the same as farm bureaus. Wisconsin alone had no county organization to assist in agricultural extension work.

The Iowa Farm Bureau Federation was formed December 27, 1918, at a meeting at Marshalltown, by delegates from seventy-two of the county farm bureaus. Each bureau has one official representative on the board of directors who has a vote. In no case may the county agent be selected as a representative. The board of directors annually elect a president, three vice-presidents, a treasurer, and an executive committee. The secretary is chosen by the executive committee, which consists of one member of the board of directors from each of the eleven Congressional districts of the state, with the State County Agent Leader and the Director of Agricultural Extension as ex-officiis, advisory members without a vote. All of the officers and directors must be actually engaged in farming and serve without pay, but are reimbursed for expenses incurred in performance of official duties.

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One dollar of each membership fee received by the county farm bureaus may be used by the federation. There are no public funds to which it is entitled, and donations and gifts are its only other means of support. In the farm bureau membership drive late in 1919 about $300,000 was donated by members to the special working fund of the federation.

In November, 1919, the American Farm Bureau Federation was formed at Chicago by delegates from thirty-three States. A preliminary meeting had been held at Ithaca, New York, in February, 1919, at which a committee had been appointed to frame a tentative constitution and arrange for a later session. The Chicago meeting was the result of the work of this committee. Mr. J. R. Howard, of the Iowa Farm Bureau Federation, was elected president, S. L. Strivings of New York, vice-president, and J. W. Coverdale, temporary secretary, until the next meeting which was set for March, 1920.

The constitution stated the objects as follows: "To correlate and strengthen the State farm bureaus and similar State organizations of the several States in the National Federation, to promote, protect, and represent the business, economic, social, and educational interests of the Nation, and to develop agriculture."

Membership in the Federation consists of State farm bureau federations or State agricultural associations formed on the farm bureau plan or a similar plan. The dues for a State are fifty cents for each individual farm bureau member of the State.

The governing body is a board of directors which meets annually. Each State is entitled to one director and an additional director for every twenty thousand paid-up members of county organizations. The directors must be actual farmers, and as soon as a director or officer becomes "a candidate for an elective or appointive State or national office," he must immediately resign. Each member is also entitled to one delegate and an additional delegate for every ten thousand farmers of the State. These delegates form a House of Delegates which sits with the directors and shares all their privileges except the right to vote.

The directors annually elect from their own number an executive committee of twelve members which has charge of the administrative affairs of the organization. The president and vice-president are ex-officio members, and the Secretary of Agriculture of the United States and the Director of the States' Relation Service have the privilege of attending all meetings and may take part in all discussions, but have no vote.

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The second session of the American Farm Bureau Federation was held in Chicago, March 3, 1920. Twenty-eight States were admitted to membership. Bureaus were created to study the transportation problem, the distribution of farm products, and the simplification of the income tax. A legislative bureau and bureau of world statistics on supply and demand were also formed. J. W. Coverdale, of Iowa, was chosen permanent secretary. National headquarters were established at Chicago and legislative at Washington.

Early in December, 1920, the second annual convention of the Federation was held in Indianapolis. There were sixty-four voting delegates present representing thirty-two States. Organization work was reported to be in progress in all but three States. It was estimated that the Federation was supported by approximately a million and a half actual farmers, although the membership in the States affiliated was only slightly over eight hundred thousand. President Howard and Secretary Coverdale were reelected.

The three strongest States as to membership in the Federation are Iowa, Illinois, and Ohio. Iowa leads with 123,000, while Illinois and Ohio have about 100,000. The predominance of the Middle West was shown at Indianapolis where the States from that section had thirty-six voting delegates compared with ten from the East, ten from the South, and nine from the Far West.

By comparison with the organization of other bodies of farmers, it is apparent that farm bureau strength is largely in previously unorganized territory. Perhaps the explanation is found in the fact that the Middle West has been quite prosperous until recently and has not felt the need of organization. In addition, this territory is the grain-belt and general farming section where conflicts of interest are greater. The rapid growth of the farm bureau is partly due to the decline in the farm products, but also to the forced nurture due to the war and Government support and encouragement.

Farmers' Union

Another leading general farm organization is the Farmers' Educational and Cooperative Union of America which was organized in the South in 1903. Its greatest strength is now in Kansas, Nebraska, Iowa, and Oklahoma. It did not enter the grain-belt States to any considerable extent until 1913. There are twenty-seven State unions, most of them south of Kentucky and Virginia and west of the Mississippi. Current newspaper accounts credit it with a membership varying from 250,000 to 900,000.

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chief activity has been devoted to the promotion of co-operative enterprise. It claims to do annual business of one million dollars, twenty per cent of which represents savings to members. About two-fifths of this business was done in Kansas and Nebraska. All cooperative associations are organized upon the Rockdale plan, and pay from six to eight per cent dividends on capital stock and distribute additional profits in the form of patronage dividends.

These two national farm organizations seem to have worked together without serious friction. In some instances there has been duplication of membership, and officials have cooperated in the support of legislative measures in the interest of farmers. Lately in Iowa there have been signs of conflict, and, at the State meeting of the Farmers' Union in September, 1921, a contest for the presidency resulted in the election of the candidate who stood for the maintenance of the complete independence of the organization from the Farm Bureau and for keeping it "strictly a farmers' organization". The opposing candidate was understood to favor cooperation with the Farm Bureau. The vote was 489 to 186. A resolution was unanimously adopted calling for the abolition of county agricultural agents as "unnecessary and useless". Another resolution instructed the officers to confer with representatives of the American Society of Equity on proposals for amalgamation.

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The Farm Bureau has placed the emphasis upon education and better farming. It has been conservative and has kept out of partisan politics, but it must meet the urgent economic needs of its constituents or give way to a more effective organization. The Farmers' Union has devoted itself especially to cooperative methods of marketing and of distribution.

State control of methods of distribution has failed to meet widespread approval and has not been worked out successfully in North Dakota. Nebraska's experience suggests a better way and one suited to the individualistic character of the western farmer--that of voluntary cooperation in buying and selling.[1]

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(1) Haynes, Fred E., Social Politics in the United States, (Boston, 1924), pp. 334-336

AGRICULTURAL CREDIT

BEFORE THE

WORLD WAR

There were some important differences between the requirements of agriculture and of urban business in the way of credit facilities. Commercial credit for short-time transactions did not exceed ninety days. Long-time credits were always available through the medium of bond sales. Agricultural credit fell into three general classes: short-time credits under six months, intermediate credits from six months to three years, and long-time credits for periods above three years. The commercial bank provided short-time credits not to exceed three months. This meant that if the farmer secured adequate credit accomodations, he must plan to renew his notes one or more times and take the chance that renewal would be permitted. The farmers' crops for the most part were produced once a year, and livestock often required longer. Before 1913 no regular means of providing this credit was provided. National banks were prohibited from making loans on real-estate security. The beginning of the recognition of this problem was inaugurated in the Federal Reserve Act of 1913.

For the most part long-time credits in agriculture meant land credit; that is, credit for the purchase of a farm or for more land or for permanent improvements on the land. Of the three the purchase of a farm presented the most serious problem. It meant a larger relative outlay, longer

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time, and more favorable interest rates. The fact that free or cheap land was gone was making this problem more and more acute.

The Federal Reserve Act provided that national banks might lend money on farm land to the extent of fifty per cent of its value and for a maximum of five years. This made the land-credit system an adjunct of the commercial-credit system and was the conservative solution.(1)

The more radical element insisted upon the establishment of a separate system on a more liberal plan. The Federal Farm Loan Act of July 17, 1916, represented substantially this view. A board of five members was created to administer the system, one member being the Secretary of the Treasury. The country was divided into twelve districts, in each of which a Farm Loan Bank was to be established. The banks made loans to the farmers through the medium of three possible agencies: national farm-loan associations made up of farmers wanting loans, banks or other credit institutions designated by the bank, or joint-stock land banks, which were a new type of private institution. Capital was provided in the first instance by the Federal Government, but additional funds were to come from stock subscriptions of the local borrowing institutions and from the sale of debenture bonds se-

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(1) Malin, James C., The United States after the World War, (Boston, 1930), p. 236

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(1) Malin, James C., *The United States after the World War*, (Boston, 1930), p. 338

secured by farm mortgages. The national farm-loan associations came nearest to meeting the requirements of the home-purchaser, but the cooperative nature of these institutions and the obligations assumed made progress slow among the individualistic American farmers. The other two agencies were better adapted to serve the farm-owner who was adding to his holdings or improving his land. For example, the borrower from a Joint-Stock Land Bank was not required to cultivate the land being purchased, whereas the borrower from a national association must cultivate.(1)

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(1) Malin, James C., The United States after the World War, (Boston, 1930), p. 238

AGRICULTURAL CREDIT

DURING THE

WORLD WAR

The outbreak of the World War in 1914, by diverting the labor and capital of Europe from productive pursuits to war, created an immediate demand for American products which was increased when the United States became a belligerent in 1917. Prices rose, much marginal land hitherto unimproved or in pasture was brought under cultivation and the output was greatly enlarged. When normal activities were resumed after the Armistice, the European peoples began gradually to supply their own needs, and by the end of 1920 the inflated prices of food-stuffs dropped sharply. Production in the United States was not easily curtailed, however, and the American farmers were faced again with the problem of relative over-production and low prices which had created such profound discontent fifty years previously. At the same time the burden of fixed charges and mortgage indebtedness had increased. As the price of land rose, a larger investment of capital was called for and it became necessary for a young man buying a farm to mortgage it more heavily in order to acquire title and to equip it properly. This is probably the explanation--in part at least--of the increase in the percentage of farms mortgaged, from thirty per cent in 1900 to thirty-six per cent in 1925. During the same interval the average value of a farm in the United States almost trebled, from $2,896 to $7,764. The average farm mortgage at the latter date was $4,000.(1)

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(1) Bogart, Ernest L., Economic History of the American People, (New York, 1931), p. 531

POST WAR LEGISLATION

There were no material legislative changes in the Federal Farm-Loan System during the post-war decade; there were, however, amendments of minor character to adjust details of operation. The credit stringency of 1920-21 caused the capital of the twelve Land Banks to be increased to an aggregate of $50,000,000. This act was approved July 1, 1921. Certain aspects of administrative policy caused controversy. The Treasury wished to dominate the Federal Farm Loan Board and treat it much as a bureau in the department; the majority of the board members held the view that the board was an independent organization. A similar fight had been carried on in the Federal Reserve Bank system, and for the most part the board had won. In the Farm-Loan System the results tended in the other direction. The President opposed the principle of independent boards. During 1927 and 1928 the Farm Loan Board was reorganized by the appointment of men reputed to hold the views of the administration.

Federal Reserve Act

The first step in the adjustment of short-time credits to meet the requirements of farms was also incorporated in the Federal Reserve Act. The credit time allowed on paper made for agricultural or live-stock financing was extended from the customary ninety days to a maximum of six

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months, and this paper was made discountable with the Federal Reserve Banks. During the war no new legislation was enacted, but the agricultural requirements were favored by rulings of the Federal Reserve Board regarding classification of agricultural paper for various banking purposes. In the post-war period the demand for both short-time and intermediate credits was insistent. Conservatives insisted that all legitimate demands could be met by adjustment of existing machinery; the more radical elements insisted upon a new intermediate-credits system. The result of the contest was an extension of the short-time-credits machinery into the border zone between the two fields. The Intermediate-Credits Act of March 4, 1923 liberalized the provisions for the use of short-time agricultural paper within the Federal Reserve system, and in addition extended the maximum time of maturity for certain classes of it to nine months. The McFadden banking act of February 25, 1927, extended the maximum to ten months. The security on which this paper was based was warehouse receipts or shipping documents.(1)

The credit collapse of 1920-1921 was not brought on by the discount policy of the Federal Reserve system or by a conspiracy to curtail agricultural credit, as was often

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charged: the most important factors were cessation in buying both at home and abroad and the precipitate decline in prices, especially farm prices. The collapse in prices sharply reduced the value of security for loans, and consequently it was necessary to reduce loans somewhat in proportion in order to maintain a safe margin between the loans and the security.

The remedies brought out three points of view: first, the enactment of purely emergency legislation; second, amendment of the Federal Reserve system; third, the establishment of a new intermediate-credit system. In the long run all were tried. Before any legislation could be enacted private assistance was extended, at the suggestion of the Secretary of the Treasury, through the Stock Growers' Finance Corporation sponsored by bankers in January, 1921 to assist in financing the exportation of agricultural products. Its scope was enlarged by an Act of August 24, 1921 to include emergency agricultural credits. It continued until 1924, when the new intermediate-credits system was put into operation.

Intermediate Credit Act

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way in which enough votes could be mustered to pass any bill. It was hoped that in this manner some part or parts of the combination would help agriculture, and the enactment of some measure was necessary to help the political situation because the farmer was becoming impatient.

The Federal Farm Loan Board was increased from five members to seven and was given jurisdiction over the new intermediate-credits system. Twelve Federal Intermediate-Credit Banks were to be organized, one in each Federal Reserve Bank district. These banks were authorized to make loans to cooperative producing and marketing associations. The security should be warehouse receipts, shipping documents, or live-stock mortgages. The maturity of the loans was from six months to three years. The capital of the banks was subscribed by the Treasury; they might issue collateral trust debentures for periods not to exceed five-years secured by cash or agricultural-credits; corporations could be formed by five or more persons for agricultural or live-stock purposes under authority of the Comptroller of the Currency. The corporations were authorized to buy and sell debentures issued by other Federal Intermediate Credit Banks. The security for both loans and debentures was similar to that required under the Intermediate-Credit Bank System.

It is very important to the understanding of the agricultural code to see how completely all the previous farm legislation was tied together in the short-time and intermediate-credits systems. The establishment of standards for farm products under Federal inspection, the control of terminal markets, the control of warehouses which issued warehouse receipts, and the legalization and promotion of cooperatives were all essential to the sound functioning of the principle of basing agricultural credit upon farm products as security. The System was drafted during an abnormal period and was organized under the most adverse conditions. It had to be built from the ground up, and almost without American precedents except where it was tied up to the Federal Reserve system, which was drafted after six years of intensive study of normal times and was put into operation in 1914, before there was any serious financial disturbance. Furthermore, the Federal Reserve System was built upon the National Bank System, which had been in operation for fifty years.

The principle of using agricultural products as the basis of a system for solving the farmer's financial problems was not new in the United States. The Farmer's Alliance sub-treasury plan adopted by the Populist party in 1892 provided for the issue of paper money on the security of farm

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products stored in warehouses. They also proposed a land-credit scheme. The farmers of that period did business with money rather than with credit. In 1916 and 1923 agricultural financing was assisted if not solved by the creation of credit institutions which utilized the same security--land and agricultural products. In the latter period business was done with credit rather than with money. The Populist scheme was considered too radical to receive serious consideration from sound financiers; the later schemes were pronounced conservative and sound when they were established.

More recent attempts to solve the agricultural problem, while assuming the responsibility of the Government in the matter, have progressed beyond the old panacea of easy credit. Agricultural economists now have their attention fixed upon the surplus as the root of the difficulty. In industry, production can be curtailed to meet the demands of any given time, and a glutted market with the attendant decline in prices can be in measure forestalled. But in agriculture, where each farmer is a law unto himself and where crop yields must inevitably vary greatly from year to year, control of production is well-nigh impossible and a surplus may easily become chronic. Suggestions for relief, therefore, looked increasingly towards the disposal of this surplus to the greatest advantage.

McNary Haugen Bills

The leading measure advocated as a solution of this question was the McNary--Haugen bill, introduced into Congress during the session of 1923-1924. The radical farm group took the aggressive part in formulating the program, and no administration measure was presented until late in the contest. Inasmuch as each successive McNary-Haugen bill was different in details from its predecessors, only the general principle of the equalization fee is discussed here. It started with the assumption that tariff did not really protect agriculture, but that an equivalent could be provided by fixing the domestic price at a point which would insure a profit. The surplus of each year's crop over domestic needs could be sold in the world's markets for what it would bring. The loss would be assessed, in the form of an equalization fee, against every unit of the product sold by the producer. The larger the surplus the greater the loss and consequently the fee, which would leave the net price low and discourage production. Where the surplus was very small there would be no need for the system. By applying these tests to agricultural crops in normal years it was clear that only two crops, wheat and hogs, would be seriously concerned. Producers of cotton and tobacco sold too great a proportion of their crop abroad to be interested;

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other producers usually did not have enough to sell abroad to interest them. The McNary-Haugen bills were, therefore, Middle West measures.

On April 12, 1926, Mr. Jardine, Secretary of Agriculture, presented the Administration Bill through Senator Capper. It approached the question from the standpoint of controlled production and improved marketing conditions. Policies already inaugurated were to be continued, especially the cooperatives in maintaining an adjustment of production and in finding market outlets. In emergency cases it could administer a revolving fund to assist in holding crops for the purpose of allowing orderly marketing.

During the next session the McNary-Haugen group secured the support of the cotton and tobacco sections of the South and passed their bill. President Coolidge vetoed it February 25, 1927. The veto message declared that the bill was a grant of special favors to particular crops and to particular sections. It was price-fixing; it was an abuse of the taxing power; it would increase prices to the consumer and would increase the cost of production. Other industries would ask for similar protection. The plan was contrary to policies of preventing combinations in restraint of trade; it would put the Government into business; it would encourage speculation. Under such a plan, sale of United States'

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products in the world's markets would be treated as dumping and would cause discrimination against American goods. The plan would be difficult, if not impossible, to administer and would build up bureaucracy. The method of appointment was an unconstitutional invasion of the president's appointing power.

Nearly all these objections would be equally valid against a high protective tariff. As a matter of fact, most of them had been frequently used in earlier years by the exponents of low tariff. Why should they have been used by an advocate of high protection? It was the very heart of the whole McNary-Haugen bill to grant to the farmer the same measure of protection that the manufacturer was already enjoying. The last group of objections were more easily defended. The country seemed, on the whole, to indorse the wisdom of the veto without necessarily approving all the reasons.

During the winter of 1927-1928 a revamped McNary-Haugen Bill was pushed through Congress. It contained the equalization-fee plan, and it was almost certain of a veto. The presidential campaign was well under way, and the McNary-Haugen group expected either to force the acceptance of the measure or to take it into the campaign. It went to the President on May 18 and was vetoed on May 23. The McNary-Haugen

group had lost in Congress, so they prepared to fight the issue out before the political party conventions in June.

The plans for the creation of a division of cooperative marketing in the Department of Agriculture were proposed in 1925 but were not enacted into law until July 2, 1926. This Act was to create a Federal agency to foster the growth of cooperatives and to provide them with adequate information and service to enable them to function fully. Mr. Jardine's ideal was controlled production at low cost and orderly marketing. His plan was to build the foundation on farmer-controlled cooperatives and then to create farmer-controlled central stabilization agencies to coordinate the thousands of cooperatives on a national scale. Each major group would serve as the national instrument through which these central bodies would be created and coordinated. As a law creating the farm board was not enacted, the question became an issue in the campaign of 1928.

In the meantime agriculture had made a practically complete recovery in some localities and crops, a partial recovery in others; but depression still persisted in many places. The most serious period had been 1920-1923. By 1924 more favorable conditions were clearly perceptible. A good price for wheat in that year gave relief to the wheat areas. In 1926-1927 the cotton situation was substantially

improved. By 1927 live-stock had recovered for the most part, and real estate sales were reported in many communities at advances in price. Mr. Jardine reported in 1927 that the farmer had regained three-fourths of his buying power.

The restoration of agriculture to approximately the pre-war level was looked upon by many as the solution of the agricultural question. From this point of view only emergency measures had been required; consequently, by 1928 little real need existed for further action. During the pre-war period, however, agriculture was far behind urban industry in application of power machinery, organization for controlled production, orderly marketing, economical financing, elimination of waste, etc.[1]

The inelasticity of demand causes prices to be high in years of low production and low in years of large production. To the numerous small-unit producers in agriculture the market for their products appears almost infinitely elastic in the sense that production adjustment on the part of an individual producer cannot affect the prices he receives. As a result, farmers as a group tend to over-expand when prices are high. This is a particularly unfortunate tendency when the high prices are merely the result

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(1) Malin, James C., <u>The United States after the World War</u>, (Boston, 1930), p. 245

of law yields and consequent short supplies. Farmers also as a group tend to be reluctant to reduce production when prices are low because of the necessity of meeting fixed charges. Furthermore, the small farmer, unlike the manufacturer, cannot reduce operating costs by discharging large groups of workers.(1) and (2)

The purpose of a sound agricultural policy should be to place the industry upon a stabilized basis and redress the balance between urban and rural economic and social systems.

With the veto of the McNary-Haugen bill the farm leaders called for a march of the farmers on Kansas City to force the adoption of a plank in the Republican platform indorsing the equalization fee. In spite of their efforts the Republican convention refused to submit; it adopted the administration policy instead. When the nominations of candidates were being made, Mr. Lowden, who favored the equalization fee, withdrew his name on the ground that the party had not met the farm issue. The convention nominated Herbert Hoover by an overwhelming majority. Mr. Hoover was known to advocate the administration program and was considered by some as the originator of the farm board plan.

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(1) See page 222.
(2) United States Department of Agriculture, Agricultural Adjustment, 1937-1938, (Washington, 1939), pp. 2-3.

Having been defeated all around at Kansas City, the cornbelt leaders (that is, the most radical of them) raised the rallying cry "On to Houston". They went, and were heard. The Democratic platform, however, did not indorse the McNary-Haugen Bill itself; the indorsement was of the principle that the cost of marketing surplus crops should be assessed against the crop benefitted. This was the principle of the equalization fee. Alfred E. Smith, the Democratic candidate, accepted the plank as written.

The proposed agricultural policies of the two candidates, as defined in the platforms and expounded in campaign speeches, were identical on most points: inland waterways, highways, cooperatives, credits, and so on. Mr. Smith criticized the Republican tariff policy, but in the last analysis there was little apparent difference between them even on that subject. The primary difference between the programs centered about the Democratic equalization fee and the Republican farm board. In neither case did the party or the candidate present a concrete description of the machinery required to put the program into effect. The Democratic plan emphasized Federal regulation; the Republican proposal stressed federal assistance associated with economic self-government. Mr. Smith promised to appoint a commission immediately after election to frame the mechanics

of his scheme. Mr. Hoover promised that if Congress did not enact legislation in the winter session after election, he would call a special session to provide the legislation. The farmers' revolt did not materialize. McNary indorsed Hoover immediately; McMullen of Nebraska, who made the call for the farmers to march on Kansas City, indorsed him later in the campaign. Others followed their example.

There can be no doubt that Government policy contributed substantial assistance. Prior to 1913 United States agricultural policy was focused upon the problems of production. In that year a new departure was inaugurated which for the first time placed systematic emphasis upon the problems of marketing. The practical application of the combined program was carried to the farmer through the cooperative extension service established under an act of 1914 (utilizing the state agricultural colleges, the county agents and the farm bureaus), and the marketing and rural organization created in 1903. The ideal was to provide the facilities for maintaining a stabilized agriculture and rural life. Using these as a foundation, agriculture was in process of transformation. Partisan politics had little to do with the achievement. The Wilson, Harding, and Coolidge administrations each contributed a share. A large part of the new program did not come from administrative initiative. Some

measures were forced upon the administration by the bipartisan farm bloc. In much of the administration policy, support in Congress was drawn from both parties. It was difficult for either party to make political capital out of agricultural policy.(1)

Agricultural Marketing Act

The actual line of development of our agricultural policy moved through the Agricultural Marketing Act to the creation of a Federal Farm Board. The three purposes of the Agricultural Marketing Act, passed in 1929, were as follows: 1. to promote the greatest possible economy and efficiency in the system by which the products of agriculture are distributed in domestic and foreign markets; 2. to assure that the benefits of such market reform shall go to the farmer-producer and that each such producer shall receive his equitable share of the net price; and 3. to provide a central board of strategy consisting of representatives of the nation's agriculture, who, with an elaborate investigational and advisory staff, shall contribute their leadership to the underlying agricultural organizations in a comprehensive plan of economic rationalization.

Purpose

As the Agricultural Marketing Act states, the central purpose of this novel departure within the structure

(1) Malin, James C., The United States after the World War, (Boston, 1930), pp. 245-247.

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of our Government was to work out a plan of orderly production for the agricultural industry and of orderly marketing of the commodities thus produced.(1)

The disapproval of this measure is found in a pamphlet issued by the Chamber of Commerce of the United States in May, 1930.

"The legislation which was enacted in June, 1929, was in contravention of the Chamber proposals in its provision of new credit facilities in the form of large sums of money from the public treasury to be used under the Act as the farm board might decide."(2)

Federal Farm Board

The Farm Board was empowered to lend large sums, but declared that such loans will be made only to organized groups. In other words, the farmers were to be induced to unite for mutual self-help and were to be instructed to better business practices. Permanent farm relief rather than temporary palliatives was the purpose of the plan.(3) The administration of the bill was vested in a Federal Farm Board, which consisted of the Secretary of Agriculture and twelve members to be appointed by the President and the Senate (sec. 4). Section 5 of the bill provided for six-

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(1) The *Annals of the American Academy of Political and Social Science*, (Philadelphia, 1934), p. 48

(2) Chamber of Commerce of the United States, *The Agricultural Marketing Act*, Washington, (May, 1930), p. 79

(3) Bogart, Ernest L., *Economic History of the American People*, (New York, 1931), p. 532

year terms, the terms of four of the members expiring every two years; fixed the method of filling vacancies; required the vote of the majority of the appointed members in office to the approval or authorization of any matter by the board; and fixed the salary at $10,000 per annum.

Section 6 vested in the Board certain general powers and imposed certain duties, such as the meeting of the board at the call of the Secretary of Agriculture, the chairman, or a majority of the members, and securing and disseminating information.(1)

The Board was given definite powers and duties to assist all producers of agricultural commodities in their work for orderly marketing, whether producers of "basic agricultural commodities" (wheat, cotton, corn, butter, cattle, and swine) or producers of other agricultural commodities.

In the case of basic agricultural commodities the operations of the Board would be through contracts with cooperative agencies, created by the producers themselves, or with processors of the commodity, or with other agencies if there was no cooperative association capable of carrying out the agreements. The Board could not enter into the contracts, however, until after it had found that certain specified

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(1) Wilson, H. W., The Reference Shelf, (New York, 1927), p. 137

conditions existed. In the case of cotton, it must find that there existed or was likely to exist a surplus above the requirements for orderly marketing and that the co-operative associations or other organizations representing the producers thereof were in favor of the Board's taking a hand.

After the finding of the necessary facts, the Board would assist in removing or withholding the surplus by entering into agreements under which the Board would undertake to pay, out of the equalization fund for the particular commodity, the losses, cost, and charges involved in the purchase, withholding, and selling of the commodity or any food product thereof. Advances might be made out of the equalization fund for these purposes. The profits would accrue to the equalization fund for these purposes.

The Board was also authorized to make loans to cooperative associations of agricultural products not included within the list of basic agricultural commodities, for the purpose of assisting them in controlling the surplus of their commodity, or for the purpose of assisting them in the purchase and construction of the facilities to be used in the storage or processing of the commodity.

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an equalization fee upon the processing or first sale (as the Board might determine) of the commodity, so that the producers of the commodity might eventually finance their own stabilization program. An equalization fund for each commodity would be established, and the fees on that commodity would be placed in the proper equalization fund.(1)

Federal Farm Advisory Council

In order to give the producers themselves a direct voice in the administration of the law and to impose responsibility upon them, Section 2 of the bill established the Federal Farm Advisory Council, composed of four members from each of the twelve Federal Land Bank districts. The members would be elected annually by the bona fide farm organizations and cooperative associations, and would serve without compensation, except that they might be paid a $20 per diem compensation, while attending meetings of the Council.

Section 3 prescribed the duties of the council, and provided for the nomination to the President of three individuals from each of the twelve Federal Land Bank districts for appointment to the Board (nominees from each district to be selected by the council members from the district), nominations to fill vacancies, annual meetings, and special meetings on majority petition.(2)

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(1) Wilson, H. W., <u>The Reference Shelf</u>, (New York, 1927), pp. 118-119

(2) Ibid, p. 136

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(1) Wilson, E. W., The Reference Shelf. (New York, 1927), pp. 118-119

(2) Ibid, p. 126

Revolving Fund

The bill provided for a revolving fund of $375,000,000. Of this sum $100,000,000 was set aside for cotton; $250,000,000 for the other basic agricultural commodities; and $25,000,000 for loans to cooperative associations handling other agricultural products, for the purchase of warehousing or processing facilities.(1)

Contribution of the Harding-Coolidge-Hoover Era

When an appraisal is made of the contribution of the Harding-Coolidge-Hoover era to agricultural policy in this country, there was little to be found of a permanent nature. While big business had achieved a much larger measure of respectability since the days of Mark Hanna, nevertheless it was not even at that time more completely in control of the reins of Government than during the twelve-year period under consideration. Profession of interest was made in the solution of the difficulties of the farmer, but only as little was done as was necessary to placate the growing dissatisfaction among this large element of our population. It was stupid, even from the standpoint of our industrial barons, to crush out the buying power of the farming classes, constituting a third of our people. One analyst of what took place during these years describes it as follows:

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(1) Wilson, H., W., The Reference Shelf, (New York, 1927) p. 120

"In the years of post-war prosperity, when our annual rate of population gain was declining, we nevertheless doubled our production of goods per person as compared with the years immediately before the war. But the rate of gain for 'durable goods' was twice that of the rate of gain for the kind of goods that people use personally, called 'consumers' goods.' No matter how much people strove to 'keep up with the Joneses', their consumption of the kind of goods like food, clothes, and shoes, which they previously had been fairly well supplied with, could not advance as rapidly as the output of things like automobiles which they had not had before on a general scale, or of things like highways and new high schools, to which there is no definite limit of usefulness or improvement.

"This movement of money and men into new industries, which the greater output of 'durable goods' partly reflected, was bound to be checked. The high profits from which came much of the money for the 'durable goods' placed in new plants and industries were partly a result of the failure of wages, prices to farmers, and prices to raw material producers, to advance in equal step with profits. That gradually cut down the buying power of large numbers of consumers. At the same time, the new industries thus established fought with the old for the consumers' dollars. The profits made in new industrial plants and new industries

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"These results brought into play pressure from all the financial interests and institutions which had money invested in older plants or industries, and to check the replacement of obsolete plants and machinery. Profits were, therefore, diverted from creation of new labor pay-rolls and from purchases of materials from farm, forest, mine, and quarry to speculation in stocks, the financing of mergers and combinations, the piling up of 'surpluses,' and other activities that took money and purchasing power away from industries and industrial workers. Profits were diverted into merely financial uses, in which vast sums of money and huge quantities of credit were used with the employment of very few men and women--creating a minimum of buying power for goods and services.

"Expansion was checked, buying power fell, and the usual scenes of a depression were enacted on a scale made all the greater by the immensity and intensity of the industrial advance which had preceded it."

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The steps actually taken to improve the condition of the farmer largely centered in the elevation of tariffs to protect the home market and unfortunately to reduce the

foreign market for agricultural products, incidentally widely fostering similar tariff walls among the nations throughout the world. There resulted the improvement to a certain extent of this intermediate credit problem, but the benefits of this, due to the machinery set up, accrued largely to the Cooperative Marketing Associations functioning for only a relatively small proportion of cooperative marketing.

In its dying days, on December 7, 1932, the Federal Farm Board in a special report recommended legislation looking toward the modification of the stabilization sections of the Agricultural Marketing Act "so as to provide some means of elevating the returns to farmers from the production of exportable farm products, in such a way as (a) to pay the costs, if any, on a continuous and self-sustaining basis, and (b) to provide an effective system for regulating acreage or quantities sold, or both." This they reasoned would provide a means of working toward income elevation as an alternative to the mere price stabilization which the act authorized. Also, the reports of the Business Men's Commission on Agriculture and of the special committee of the Association of the Land-Grant Colleges and Universities revealed more of a disposition to recognize the maladjustment in agriculture and to get to the bottom of it

as to causes, upon such a basis constructing a program to restore its equality with industry. Unfortunately, the elements of specificity and practicality were too largely lacking in much of what was recommended and undertaken. The support of farmers' organizations with respect to the various plans proposed was much divided in the days of the recent Republican leadership; and futility, to a degree fatal to the continuance in power, characterized its efforts to initiate a comprehensive program for the restoration of agriculture.

One of the most wholesome of the developments taking place during the Harding-Coolidge-Hoover regime was the marked improvement of the crop and livestock reporting service which laid the basis for the agricultural outlook reports, the first of which was published in April, 1923. "Once a year, all of the forces in the Department of Agriculture are mobilized around the one question of determining as nearly as is possible, on the basis of existing information and analyses, what the present condition is with respect to production, consumption and prices of the farm products, what developments are under way with respect to all of these, and what adjustments the producers should make in order to meet these impending developments. A careful analysis is also made of the general agricultural and economic

situation as it affects agriculture as a whole. Special emphasis is placed upon presenting the pertinent facts in such a way that individual farmers can make whatever interpretation of them they wish; but a certain amount of actual recommending of production programs is undertaken. The aim on making such recommendations is to be extremely safe and conservative." In more recent years, these outlook reports have been prepared by regions and also by individual states, and made widely available as guides to the operations of the individual farmers. These data were carefully developed and characterized by a great degree of precision, but in an era of laissez faire they were but feebly applied, and had relatively feeble results in effecting concerted activity among the six million and more farmers in the United States, each working for what seemed his own interest with an almost total disregard of the fact that the collective interest in such matters, as a rule, also best serves the individual interest.(1)

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(1) Gee, Wilson, American Farm Policy, (New York, 1934), pp. 39-46

THE NEW DEAL

1933

Attitude of Franklin D. Roosevelt

In his campaign speeches during the summer and fall of 1932 for the presidency of the United States, Governor Franklin D. Roosevelt of New York said among other things in relation to the agricultural impasse which had developed; "We have poverty and want in the midst of abundance. With incomparable natural wealth within the reach of these progressive farmers they struggle with poverty and unbelievably hard times. They try to hold their farms under conditions produced by corn, hogs, cotton, wool, cattle and wheat selling on the farm at prices as low or lower than at any time in the history of the United States..... There are six and one-half million families to whom this deepening shadow is a grim reality.....But let us not stop at our six and one-half million farm families. Let us remember that fifty million men, women and children within our borders are directly and immediately concerned with the present and the future of agriculture.....Our economic life is a seamless web.....This nation cannot endure if it is half 'boom' and half 'broke'.....We must have, I assert with all possible emphasis, national planning in agriculture..... On my part I suggest the following permanent measures: First--I would reorganize the United States Department of Agriculture looking toward the administrative machinery

needed to build a program of national planning.....
Second--I favor a definite policy looking to the planned use of the land.....A third process of permanent relief for agriculture can come through national leadership in the reduction and more equitable distribution of taxes..... There is the necessity for the refinancing of farm mortgages in order to relieve the burden of excessive interest charges and the grim threat of foreclosure.....The second immediate necessity is to provide a means of bringing about, through governmental effort, a substantial reduction in the difference between the prices of the things the farmer sells and the things he buys. One way of attacking this disparity is by restoring international trade through tariff readjustments.....Support for the trial of some plan to put the tariff into effect seems to be found everywhere except in the administration at Washington.....It says, in substance, that since a perfect plan has not been developed, nothing can be done.....This negative, even hostile, position has included a disposition on the part of the administration to set proponents of one plan off against another; the apparent object being to create a situation in which it is possible for administration leadership to say, 'How can we do anything for agriculture when it is not agreed within itself as to what it wants to do?' It will be my purpose, my

friends, to compose the conflicting elements of these various plans, to gather the benefit of the long study and consideration of them; to coordinate efforts to the end that agreement may be reached upon the details of a distinct policy, aimed at producing the result to which all these efforts and plans are directed--the restoration of agriculture to economic equality with other industries within the United States. I seek to give to the portion of the crop consumed in the United States a benefit equivalent to a tariff sufficient to give your farmers an adequate price.....In determining the details necessary to the solution of so vast a problem it goes without saying that many minds must meet and many persons must work together."[1]

Agricultural Adjustment Act

Upon his inauguration, March 4, 1933, President Roosevelt lost no time in assembling the new Congress and putting it to work upon his program of national recovery, popularly known as the "New Deal". The agricultural part of this program was provided for in the Agricultural Adjustment Act which was approved by the President on May 12, 1933. This measure was composed of three parts: (1) that granting authority to the President, through the Secretary of Agriculture to take measures to increase agricultural

(1) Gee. Wilson, American Farm Policy, (New York, 1934), pp. 47-50

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(1) Geo. Wilson, American Farm Policy, (New York, 1934), pp. 47-50

purchasing power by means of raising farm income; (2) another empowering the Farm Credit Administration to take steps toward lightening the load of farm mortgages; and (3) the granting of certain unusual powers to the President with regard to the national currency and credit.(1)

Authority was found in the Act of the 73rd Congress, approved by the President on May 12, 1933. Extended powers were subsequently bestowed in a series of eleven acts of Congress, three Congressional resolutions, and the National Industrial Recovery Act, amplified by five executive orders.

The purpose of the AAA was to promote national economic recovery by restoring the purchasing power of American farmers to the general level it occupied in the five years preceding the World War--1909 to 1914--and to seek a balance between production and demand through production-adjustment programs, marketing agreements, and the removal of burdensome and price-depressing surpluses.(2)

It was provided to avoid conflicts in the administration of the Agricultural Adjustment Act and the Industrial Recovery Act by vesting in the President authority to delegate any of his functions and power under the Industrial Recovery Act with respect to trades, industries or subdivisions

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(1) Gee, Wilson, American Farm Policy, (New York, 1934), p. 50

(2) Carroll, Raymond, New Deal Annex to Government, Saturday Evening Post, July 27, 1935, p. 26

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thereof engaged in the handling of agricultural products to the Secretary of Agriculture.(1)

In order to make possible this adjustment of production, the Act in Section 8 empowers the Secretary of Agriculture: "To provide for reduction in the acreage or reduction in the production for market, or both, of any basic agricultural commodity, through agreements with producers or by other voluntary methods, and to provide for rental or benefit payments in connection therewith or upon that part of any basic agricultural commodity required for domestic consumption (essentially the voluntary domestic allotment idea), in such amount as the Secretary deemed fair and reasonable, to be paid out of any moneys available for such payments." Flexibility in the application of the provisions of the Act was provided through power given to the Secretary to issue or abrogate regulations for enforcement, subject only to the approval of the President. The basic agricultural commodities listed in the measure were wheat, cotton, corn, hogs, rice, tobacco, and milk and its products. All such reductions in acreage or in production for market must be effected through arrangements that are voluntary on the part of the farmer--no power was provided in the Act to order such reductions.

(1) Chamber of Commerce of the United States, Agricultural Adjustment Administration, Farm Credit Administration, (June, 1933), p. 3

Choice of methods for determining and making compensation payments for adjustment of production was largely within the discretion of the Secretary of Agriculture. He may lease land in large areas, by States or regions or from individual farm owners, and retire it from the production of any crop. The power of saying what use may be made of land so withdrawn was his, and he could prescribe whether it was to be applied to producing crops that do not compete with other commodities of a surplus nature, or whether it must be devoted to soil-improving or erosion-preventing crops. "The Secretary may yet, under the Act, determine what proportion of the total acreage of a given crop he would lease or he may yet decide to designate and lease certain fields on an individual farm. Otherwise the tendency would be to lease and withdraw from production only the poorer or submarginal lands. It was also within the discretion of the Secretary of Agriculture to offer compensation in the form of benefit payments for reducing the amount of a commodity that was sent to market, instead of leasing land and withdrawing it from production." Numerous modifications and combinations of these two methods have been made in the actual administration of the measure in connection with campaigns for the decrease of production in cotton, wheat, tobacco, corn and pork.

The funds for the payment of such benefits for the reducing of production according to these two methods, or a combination of them, were in general secured from processing taxes. These were in the nature of an excise tax paid by the manufacturers on the first domestic processing of the basic commodity on which it is levied. These taxes were collected by the Bureau of Internal Revenue and turned over to the United States Treasury from which depository such funds may be drawn by the Secretary of Agriculture. The limit of this processing tax was "the difference between the current average farm price for that commodity and its 'parity price'--that is, the price which it would have to bring in order to have the same purchasing power in terms of manufactured goods that farmers buy that it had in the five years before the World War." Thus this maximum tax was postulated upon the objective of elevating farm prices to the pre-war parity purchasing basis. This "does not necessarily mean that prices, in dollars, of farm products would be the same as they were before the War, but it meant that farmers selling the same volume of farm goods would be able to buy, with their returns, the same volume of manufactured goods that they were able to buy in 1909-1914.

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distributors of any agricultural commodity (not merely the ones designated as basic) or its products in interstate or foreign commerce. Such agreements were not to be considered as violations of the Anti-Trust Laws. This phase of the Act was especially applicable to such a commodity as milk where a large number of trade agreements have been made in different sections of the nation with the objective in view of stabilizing the fluid-milk markets of the areas concerned so as to assure adequate returns to producers and to provide reliable supplies to consumers at reasonable prices. The powers granted to the Secretary of Agriculture in this part of the Act were broad, and authority was given him to include in such agreements nearly any requirements necessary to the achievement of the purposes of the measure.

Moreover, the law had teeth in it. Through licenses granted to processors, with the power of revocation in cases of violation, it was within the authority of the Secretary of Agriculture to shut down the plant of a manufacturer whose activities did not conform to the terms of the measure.[1]

Farm income rose from around $5,300,000,000 in 1932 to $7,300,000,000 in 1934.[2] For the year 1935 the

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(1) Gee, Wilson, American Farm Policy, (New York, 1934), pp. 50-55

(2) American Observer, January 13, 1936

administrative costs were estimated at about $35,000,000 by the AAA officials.(1)

But the question arose as to whether the AAA was constitutional. Whether it helped the farmers or not, it was understood it could not stand unless it was in conformity with the highest law of the land. Congress, of course, has not the power to do anything which the Constitution does not say it may do. We find that Congress has power to borrow money, to regulate commerce, to establish a uniform rule of naturalization, to establish post offices and post roads, and to do a number of other things. The Constitution does not say explicitly that Congress shall have power to control or regulate production on the farms.

Those who supported the AAA turned to the very first clause in Section 8 of the Constitution and read that "the Congress shall have power: to lay and collect taxes, duties, imposts, and excises to pay the debts and provide for the common defense and general welfare of the United States."

The dispute as to whether Congress had the power to do this finally went to the Supreme Court and it handed down its decision in 1936. By a vote of six to three it decided that, under the power to tax for the general welfare,

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(1) Carroll, Raymond, New Deal Annex to Government, Saturday Evening Post, July 27, 1935, p. 26

Congress could not collect money which was to be used to induce farmers to curtail their output. The AAA was, therefore, declared unconstitutional.

This very important decision, held by some to be the most important judicial act since the Civil War, was gratifying to those who think that Congress should not regulate industry, legislate concerning prices or production, fix minimum wage laws and hours of labor, and assume control of the national industry in other ways. The decision came as a great shock to those who believe that the states are unable to deal with nation-wide industrial problems and that congressional action is necessary under modern industrial conditions.(1)

Organization of the Farm Credit Administration

All the Federal agencies and functions dealing with agricultural credit were consolidated into one organization--the Farm Credit Administration--by the President's Executive Order effective May 27, 1933. This new organization is headed by a governor and two deputy governors.(2)

The Governor of the Farm Credit Administration is directly responsible to the President and is vested with all the powers, authority, and duties of the officers,

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(1) American Observer, (January 13, 1936)
(2) Agricultural Financing Through the Farm Credit Administration, Chamber of Commerce of the United States, Circular, (March, 1934), p. 3

executive agencies, and heads thereof transferred into the Farm Credit Administration or relating to the functions so transferred. On May 27, Henry Morgenthau, Jr., assumed the office of Governor of the Farm Credit Administration and on November 17 he was succeeded by W. I. Myers.(1)

The four commissioners directly responsible to the Governor are in charge of supervising various activities, as follows:

1. The Land Bank Commissioner is in charge of Commissioner's loans and responsible for the supervision of the Federal Land Banks, National Farm Loan Associations, and Joint-Stock Land Banks.

2. The Intermediate Credit Commissioner is responsible for the supervision of the twelve Federal Intermediate Credit Banks.

3. The Production Credit Commissioner is responsible for the supervision of production credit associations and the twelve production credit corporations provided for under the Farm Credit Act of 1933.

4. The Cooperative Bank Commissioner is in charge of the Central Bank for Cooperatives located at Washington, D.C., and is responsible for the supervision of the twelve regional banks for cooperatives provided for under the Farm Credit Act of 1933.

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Reorganizing Old Credit Agencies

Previous to the creation of the Farm Credit Administration, the Federal Land Banks, National Farm Loan Associations, Joint-Stock Land Banks, Federal Intermediate Credit Banks, and the Federal Farm Loan Bureau had been under the direction of the Farm Loan Board which was abolished by the President's Executive Order creating the Farm Credit Administration.

Abolition of Farm Board Functions

Through the President's Executive Order and the Farm Credits Act, not only the Farm Board, but many of its functions are abolished. Stabilization operations are abolished, as well as general economic investigations, and loans for extending the membership of cooperatives. Supplemental loans, i.e., loans "for enabling the cooperative associations.....to advance to its members a greater share of the market price of the commodity delivered to the association than is practicable under other credit facilities", also are abolished. Most of the losses sustained by the Farm Board, aside from losses on stabilization operations, have been on this type of loan. The authorization to provide price insurance and to make loans to cooperatives for the purpose of establishing clearing houses also is abolished. The remaining Farm Board functions are those of a lending agency. Service

to and promotion of cooperative marketing associations apparently are to be sharply curtailed.

Through the Agricultural Credits Act of 1933, the lending functions to cooperatives are put on a sounder banking basis. The interest rate, which formerly has been as low as one-eighth of one per cent in some instances, is raised to between three and six per cent, or on a basis comparable to short-term commercial and private mortgage loans. The President's Executive Order placed these credit organizations in the Farm Credit Administration. The twelve regional Agricultural Credit Corporations with their twenty-one branches, and the Crop Production Loan Office and the Seed Loan Office of the Department of Agriculture, also were placed in the Administration. The Federal Farm Board was abolished but provision was made for continuing under the Farm Credit Administration its function of making loans to farmers' cooperative marketing and purchasing associations.

The Farm Credit Act of 1933 provided for the establishment of a permanent cooperative credit system to meet the production credit needs of agriculture. As the facilities of the system became available, the regional agricultural credit corporations ceased to make loans and their business was liquidated in an orderly manner. Seed and crop loans made through the Emergency Crop Loan offices of the Farm Credit Administration for the crop year 1934 were

liquidated gradually after the affairs of these offices were wound up.

Regional Organizing for Economy

The United States is divided into twelve Federal Land Bank districts. In each district there are now a Federal Land Bank and a Federal Intermediate Credit Bank. The Credit Act provides that a Production Credit Corporation and Bank for Cooperatives be established in each district. All four institutions are located in the same city and have the same directors. It is planned that eventually they will be housed in the same building.

Although the three banks and the Production Credit Corporation have the same directors, each organization has its own set of officers in charge of day-to-day operations. In order to coordinate the activities of the different credit agencies and to set up machinery that will make it possible to avoid needless overlapping and duplication of effort and facilities, the directors of the four institutions in each district meet as a coordinating body known as the "Council of the Farm Credit Administration" of the district. An executive officer called the "General Agent", nominated by the district council, is responsible for carrying out the policies of the council and for coordinating the day-to-day activities of the different institutions. To avoid

unnecessary duplication of personnel and facilities, the legal, accounting, informational, statistical, and field activities of the Farm Credit Administration are placed under the supervision and direction of the General Agent.

From the individual farmer's point of view, the centralization of administrative control with the consequent simplification of procedure for securing loans made for more effective and economical credit service than had ever been available to him in the past. The strengthening of existing institutions and the establishment of additional types of permanent lending agencies provided a complete credit system to finance agricultural enterprises. In particular, the new machinery for providing production credit, giving access to the investment market through rediscounting with the Federal Intermediate Credit Banks, is important in view of the lack of adequate commercial banking facilities in many rural areas.

The Emergency Farm Mortgage Act of 1933 enabled the Federal Land Banks to accommodate many borrowers whom they previously could not serve. In addition to this expansion of the lending activities of the Federal Land Banks, the Emergency Farm Mortgage Act made available to the Land Bank Commissioner a fund of $200,000,000 for the purpose of making emergency mortgage loans to farmers. Although these

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latter loans are administered by the Land Banks as agents of the Land Bank Commissioner, the notes and mortgages evidencing these loans form no part of the assets of the banks and are not pledged as security for Federal Farm Loan bonds.(1)

Federal Land Banks

The twelve Federal Land Banks established in 1917 under the authority of the Federal Farm Loan Act are permanent institutions designed to provide long-term mortgage credit for agriculture at rates of interest in keeping with the cost of borrowed funds and a margin to cover operating expenses. Loans by the Federal Land Banks may be made only on the security of first mortgages on farm land, and are limited by law to fifty per cent of the appraised value of the land mortgages, plus twenty per cent of the appraised value of the permanent insured improvements. In no event may loans to any one borrower exceed a maximum of $50,000. Funds for the lending operations of the banks are derived chiefly from the sale of farm loan bonds.(2)

The Emergency Farm Mortgage Act of May 12, 1933 greatly increased the capacity of the Federal Land Banks to meet the farm-mortgage credit needs of farmers. Provision

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(1) Agricultural Financing Through the Farm Credit Administration, Circular 5, (March, 1934), pp. 3-7
(2) Second Annual Report of Farm Credit Administration 1934, (Washington, 1935), p. 10

was also made for long-term farm loans by the Land Bank Commissioner. Included among the important features of this legislation are the following:

1. Interest rates are temporarily reduced on--
   (a) Outstanding Federal Land Bank loans;
   (b) New loans made by Federal Land Banks before May 12, 1935.
2. No payment on principal was to be required by a Federal Land Bank for a period of five years from July 11, 1933, if the borrower were not in default as to any other provision of his mortgage.
3. Federal Land Banks may make direct loans in territories where there are no national farm loan associations through which applications may be accepted.
4. The Land Bank Commissioner may make farm-mortgage loans, separate and distinct from Federal Land Bank loans. In making these loans the Commissioner uses the facilities of the Federal Land Banks.

Federal Farm Mortgage Corporation Bonds

Federal Farm Mortgage Corporation Bonds are: (1) Fully and unconditionally guaranteed as to both principal and interest by the United States Government. (2) As readily marketable as United States Government bonds. (3) Lawful investments, and may be accepted as security for all fiduciary, trust, and public funds of which the deposit or investment is under the authority or control of the Government. (4) Lawful security for fifteen-day borrowings by member banks of the Federal Reserve System. (5) Exempt from all Federal, State, municipal, and local taxation (except surtaxes, and estate, inheritance, and gift taxes). (6) Bear interest rates to provide the investor with returns comparable to those received on United States Government long-term bonds. (7) Issued in denominations of $100, $500, $1,000, $5,000, and $10,000.

Loans may be made up to $50,000 and for no less than $100 to any one individual, but preference is given to loans of less than $10,000. Loans from $25,000 to $50,000 may be made only with the approval of the Land Bank Commissioner. No loan can exceed fifty per cent of the appraised normal value of the land mortgaged and twenty per cent of the appraised value of the permanent, insured improvements thereon.

Loans may be made for the following purposes:

(a) To provide for the purchase of land for agricultural uses;

(b) To provide for the purchase of equipment, fertilizers, and livestock necessary for the proper and reasonable operation of the mortgaged farm;

(c) To provide buildings, and for the improvement of the farm land;

(d) To liquidate indebtedness of the owner of the land mortgaged incurred for agricultural purposes, or incurred to January 1, 1933; and

(e) To provide the owner of the land mortgaged with funds for general agricultural uses.

Loans through National Farm Loan Associations

Federal Land Bank loans in the continental United States are made through, and with the indorsement of, National Farm Loan Associations, wherever associations are in existence through which applications may be received by a Federal Land Bank. These associations are cooperative credit corporations which are chartered under the Federal Farm Loan Act and operate under the supervision and regulation of the

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Farm Credit Administration through the Land Bank Commissioner. The membership of each association is restricted to farmers who are borrowers from the Federal Land Bank, and no other persons are eligible as shareholders. The farmer-borrower who obtains a loan from a Federal Land Bank through a National Farm Loan Association purchases stock in the association in the amount of five per cent of his loan. The amount necessary to pay for such stock may be included in the face amount of the loans obtained from the Federal Land Bank. Each stockholder in the association is equally and ratably responsible for all contracts, debts, and engagements of the association entered into prior to June 16, 1933, up to an amount equal to the par value of the member's stock, in addition to the amount paid in and represented by the individual's share. A recent amendment to the Federal Farm Loan Act eliminates this double liability of association members on debts of the association entered into after June 16, 1933.

The National Farm Loan Association endorses and becomes liable for the loan made to each of its members. The stock subscribed by members is pledged with the association as collateral security to the loans endorsed by the association. The association in turn subscribes to an equal amount of stock in the Federal Land Bank, which stock is held by the bank as collateral.

When the borrower pays his loan in full, the bank retires its stock which was subscribed for by the association at the time the loan was made. If the association has met its obligations currently, the bank remits the proceeds of this stock to the association in cash. In such case, the borrower's stock in the association also is retired and the proceeds thereof paid to him or credited on his indebtedness, if any, to the association, If, on the other hand, the association has not met its obligations currently, it may be necessary for the bank to withhold all or a portion of the proceeds of its stock and apply the same as a credit on the association's indebtedness. The association retires its stock owned by the borrower at its value at the time the loan is paid off.(1)

Secretary-treasurers of National Farm Loan associations in most localities handle applications for both Land Bank and Commissioner's loans. In other localities correspondents have been appointed who will handle applications for both loans. The name of the correspondent or the secretary-treasurer in your community may be obtained from officers of local banks or the county agricultural agent. If unable to locate the secretary or the correspondent, write directly to the Land Bank for information.

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(1) Farm Credit Administration, Federal Land Bank Loans and Land Bank Commissioner's Loans, Circular 1, (Washington, 1934), pp. 3-7

Until arrangements have been made to handle the great volume of applications that have been received since the enactment of the Emergency Farm Mortgage Act, considerable time will ordinarily elapse from the time a farmer makes his application for a loan until the farm is appraised, the application is considered by the bank's officers, the legal papers are filed in the county recorder's office and the money is paid to the applicant. The Land Banks and Commissioner's agents are continuing to give preference to loans of an emergency character and have notified their local correspondents, secretaries of National Farm Loan Associations, and others, to give special attention to applications of farmers whose financial condition requires urgent action.(1)

Prior to June 16, 1933, the Federal Farm Loan Act provided that each stockholder should be individually responsible for all contracts, debts, and engagements of his association to the extent of the par value of his stock in addition to the amount paid in and represented by his shares. An amendment of June 16, 1933, provided that a shareholder in a National Farm Loan Association should not be held individually responsible, to the extent originally provided, for all contracts, debts, and engagements entered into on or before June 16, 1933.

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(1) Agricultural Financing through the Farm Credit Administration, Farm Credit Administration Circular No. 5, (Washington, 1934), pp. 15-18

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The association indorsed and became liable for the payment of all mortgages given by its members to secure loans obtained from the Federal Land Bank, and the association subscribed to capital stock in the bank in an amount equal to the stock subscribed by its members. The borrower's stock was held by the association as collateral security against loss as indorser of the loan; and the stock of the Federal Land Bank subscribed by the association was pledged with the Bank as collateral for the association's indorsement.(1)

Direct Loans by Federal Land Banks

In localities where there are no local National Farm Loan Associations through which the Federal Land Bank is able to accept applications, the Bank may make direct loans to farmers. The borrower who obtains a direct loan must subscribe for capital stock in the bank in the amount of $5.00 for each $100.00 or fraction thereof borrowed. Upon the full payment of the loan, such stock, if still outstanding, will be cancelled at par, or, in the event that the stock has become impaired, at its estimated value as approved by the Land Bank Commissioner, and the proceeds thereof will be paid to the borrower.

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(1) The <u>First Annual Report of the Farm Credit Administration in 1933</u> (Washington, 1934), p. 25

A farmer who obtains a direct loan may agree in his mortgage that he will unite with other such borrowers to form an association when there are ten or more borrowers who have obtained direct loans from the bank aggregating not less than $20,000 and who reside in any locality which may, in the opinion of the Land Bank Commissioner, be conveniently covered by the charter of, and served by, a national farm loan association. After such an association is formed, the stock in the Federal Land Bank held by each of its members will be cancelled at par and the Bank will issue an equal amount of stock in the name of the association. This stock will be held by the bank as collateral security as in the case of stock subscribed by National Farm Loan Associations in connection with new loans. Upon the formation of the association it will issue to each member capital stock in the association in the amount equal to the amount of stock which he previously owned in the bank.

Before the Federal Land Bank may make a loan, either through a National Farm Loan Association or direct, the farm offered as security must be appraised by a Land-Bank appraiser appointed by the Land Bank Commissioner.

The basis of appraisal in all cases is the normal value of the land for agricultural purposes and its earning power for such purposes is a principal factor. Average prices

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The basis of appraisal in all cases is the normal value of the land for agricultural purposes and its earning power for such purposes is a principal factor. Average prices

of farm commodities during the five years from 1909 to 1914 are used as a basis for determining normal values, allowance being made, of course, for increased taxes and other costs and for any changes in the economic position of the commodities produced. An appraisal of the farm and any personal property offered as security for a Land-Bank Commissioner's loan may be made at the same time that an appraisal is made for a Land-Bank loan.

Generally, loans by the banks are repayable in semi-annual installments, although in some Land-Bank districts loans are made on an annual-payment basis. In addition to the interest due on the loan, a sum is added which, when applied to the principal, will amortize or pay off the loan and extinguish the debt of the borrower in the period specified in the mortgage. For example, a semi-annual payment of $30 will retire in thirty-six years a $1,000 loan bearing five per cent interest under the amortization plan which has been used generally by the banks. These payments, aggregating $60 annually, not only pay the interest on the loan but also pay off the entire principal in thirty-six years. Loans are made also, in some instances, for shorter periods, usually twenty years. Such loans, of course, require larger annual payments upon the principal.

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in part, on a basis providing for the payment of annual or semi-annual installments sufficient to cover the interest on the mortgage and amortize the amount due within an agreed period of not more than forty years from the date of reamortization. In such cases the bank may charge the borrower a fee which does not exceed the actual expenses incurred in connection with the reamortization.

The rate of interest charges on loans made through National Farm Loan Associations may not exceed by more than one per cent the rate of interest borne by the bonds last issued by the bank except with the approval of the Governor of the Farm Credit Administration. When the bonds sold carry an interest of four and one-half per cent, for example, a bank may charge five and one-half per cent on loans to farmers. The present rate charged by each bank is five per cent per annum.

The rate of interest on direct loans made by a Federal Land Bank is one-half of one per cent greater than the rate of interest charged to borrowers on loans made through National Farm Loan Associations. When and if borrowers who have obtained direct loans become members of a National Farm Loan Association, the interest rate on their loans, if in good standing, will be reduced one-half of one per cent.

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charged borrowers. Interest maturing during the five years commencing July 11, 1933, in connection with loans made through National Farm Loan Associations and outstanding on the date the Act was passed (May 12, 1933), was to be charged at the rate of only four and one-half per cent. The same rate was to be charged during the same period on outstanding loans made through agents or purchased from Joint-Stock Land Banks as well as on new loans made through National Farm Loan Associations prior to May 12, 1935. On direct loans from a Federal Land Bank, the rate was to be five per cent during the same period. Furthermore, on both direct loans and loans made through Farm Loan Associations, no payment of the principal portion of any installment was to be required during the same five-year period if the borrower was not in default with respect to any other provision of his mortgage.

The banks would charge reasonable fees, not exceeding the actual cost of appraisal, determination of title, and recording. The initial charges were to meet their necessary expenses, not in excess of one per cent of the amount of the loan granted. The initial deposit required in connection with loans of $5,000 or less was $11, which covered a joint application for a loan from the bank and a loan from

the Land Bank Commissioner. Any unused part of the deposit was returned to the applicant. In connection with Land-Bank loans, National Farm Loan Associations made reasonable initial charges to meet their necessary expenses not in excess of one per cent of the amount of the loan applied for. In view of the long period of years for which Land-Bank loans were made, such costs constituted only a very small item in addition to the rate of interest which the borrower was to pay.

Applications for loans were to be made to the Secretary-treasurer of a local National Farm Loan Association. If applicants did not know his address, or if there were no association operating in their locality, they were to write to the Federal land bank serving the State in which the farm was located.(1)

Financial Condition of Federal Land Banks, 1933

The fundamental safeguards under which the banks had operated since their organization in 1917 had been maintained in the expanded lending operations initiated during 1933. From the volume of applications for loans it was evident that the amount of loans held by the banks would be very substantially increased in the near future. The addition of these new loans to the assets of the banks would materially strengthen their earning capacity.

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(1) Federal Land Bank Loans and Lank Bank Commissioner's Loans, Farm Credit Administration, Circular No. 1, (March, 1934), pp. 7-10

In view of the possibility, under the new provisions of the law, of extending delinquent payments and reamortizing mortgages, real estate acquirements declined during 1933, and a substantial part of the real estate acquired represented deeds voluntarily given to the banks by borrowers who did not wish to retain title to their farms. It was not the desire or intention of the banks to dispossess any borrower who was making an honest effort to continue his operations and who was applying the income from his farm over and above necessary living expenses to the payment of primary obligations, including taxes and the installments on the first mortgage.

Real estate disposals also declined during 1933, partly as a result of the necessity of using all available men familiar with farm property values for appraisal work in connection with new loans. During the twelve months ended December 31, 1933, 4,765 farms and parts of farms were disposed of for a total consideration of $14,112,955 as compared with 6,284 farms and parts of farms for a consideration of $14,697,659 during 1932.

On December 31, 1933, the twelve Federal Land Banks owned outright 18,135 farms, which were carried at $65,558,417. Special reserves amounting to $6,048,061 had been set up, leaving a net amount carried in assets of $59,510,356 which

represented 3.9 per cent of the total assets of the banks. The banks held also 3,810 sheriffs' certificates, judgments and similar items, the net carrying value of which was $18,177,205 or approximately 1.2 per cent of the total assets.

There were 2,502 foreclosures pending on December 31, representing 1.2 per cent of the total number of loans upon which extensions had been granted or on which installments were in default.(1)

Loans by Land Bank Commissioner

The Land Bank Commissioner is authorized to use up to $600,000,000 in bonds of the Federal Farm Mortgage Corporation to continue making loans under the provisions of the Emergency Farm Mortgage Act. The loans are made in bonds of the Corporation instead of cash, with the exception of a small part of the loan which is to be made in cash to meet special requirements where bonds cannot be used, such as for the payment of taxes and insurance on farm property.

Land Bank Commissioner's loans are made upon the security of first or second mortgages on real and personal farm property. The Commissioner will continue to use the services of the Federal Land Banks in making these loans.

The amount of loans, together with all prior indebtedness against the property, may not exceed three-fourths of the appraised value of the property. Loans may be made up to $7,500 to any one farmer.

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(1) First Annual Report of the Credit Administration, 1933, (Washington, 1934), pp. 21-23

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Any individual who is engaged in farming operations, either personally or through an agent or tenant, or the principal part of whose income is derived from farming operations, is eligible for loans.

Loans to farmers may be made by the Land Bank Commissioner for the following purposes:

(a) To provide funds for refinancing any indebtedness, secured or unsecured, of the farmer.

(b) To provide working capital for farm operations.

(c) To provide funds to enable any farmer to reacquire farm property owned by him before foreclosure which has been foreclosed at any time after July 1, 1931.

Most of the Commissioner's Loans are for refinancing purposes. The Federal Land Banks and other mortgage-lending institutions, as well as individuals, afford sources of credit to aid in the purchase of farms. However, they all require the borrower to have an equity in the farm.

If a borrower obtains a loan which represents a full seventy-five per cent of the amount of the security offered, such a loan must pay off all of the liens against such property. After appraisal of the property offered as security, the farmer will be notified of the amount of the loan that may be granted under the provisions of the law.

If the amount is inadequate to take care of the debts against the property, the farmer will have to get his creditors to agree to a scale-down of his debts to a point where he will have a twenty-five per cent clear equity in his property. Many creditors are willing to make such scale-downs in their loans in order to obtain cash for their claims.

Application may be made for the amount desired and when an appraisal of the property or properties offered as security is made the land bank officials will have before them information from which to determine whether a Land Bank loan, a Land Bank Commissioner's loan, or both, can be made. They will notify the applicant of their decision, indicating the amount or amounts which they will lend.

Before a loan may be made, the farm property offered as security shall be appraised by an appraiser designated by the Land Bank Commissioner. The basis of appraisal is the normal value of the security for agricultural purposes and in the case of land and buildings, the considerations in arriving at the normal value are the same as those used in making appraisals for Federal Land Bank loans. One appraisal may be used by officers of the Land Bank in determining whether a Land Bank or a Commissioner's loan, or both or neither, may be made.

It is expected that a substantial percentage of the loans will be made on second mortgages on farm real estate. In the case of second mortgages upon farm real estate, the Commissioner will require the holder of the first mortgage to limit his right to proceed against the farmer and the mortgaged property in accordance with regulations issued by the Commissioner.

At the present time, the rate of interest charged on these loans is five per cent per year.

Reasonable fees not exceeding actual cost of appraisal, determination of title, and recording are charged. The initial deposit required in connection with applications for loans of $5,000 or less is $11, which covers a joint application for a loan from the Bank and a loan from the Land Bank Commissioner. Any unused part of the deposit is returned to the applicant.

Payments on the loans may be made annually or semi-annually, as determined by the Commissioner. The law provides that during the first three years a loan is in effect, a borrower will not be required to make payments on the principal if he is not in default with respect to any other provision of his mortgage. At the expiration of this three-year period equal amortization payments on principal must be made with each annual or semi-annual interest payment which

will extinguish the debt within an agreed period. In the case of first or second mortgage loans secured wholly by real property and made for the purpose of reducing and refinancing an existing mortgage, the agreed period within which the loan must be wholly repaid may be no greater than forty years. All other loans must be wholly repaid within an agreed period not to exceed ten years from the date that the first payment of the principal is due.(1)

The Emergency Farm Mortgage Act of 1933 made available a fund of $200,000,000 to enable the Land Bank Commissioner to make loans in an amount not to exceed $5,000 to any one farmer upon the security of first or second mortgages upon real and personal farm property. Under the provisions of the Federal Farm Mortgage Corporation Act, approved January 31, 1934, the maximum limit of this type of loan was increased to $7,500. The notes and mortgages evidencing loans made from this fund, which has been appropriated from the Treasury of the United States, are not pledged as collateral for any issue of bonds, and form no part of the assets of the Federal Land Banks. The loans are, however, administered by the Federal Land Banks as agents of the Commissioner.(2)

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(1) Federal Land Bank Loans and Land Bank Commissioner's Loans, Farm Credit Administration, Circular, No. 1, March, 1934, pp. 3-14

(2) Statements of Condition of the Federal Land Banks, Joint Stock Land Banks and Federal Intermediate Credit Banks, (Washington, 1934), p. 3

The Emergency Farm Mortgage Act of 1933 provided that no Joint-Stock Land Bank should issue tax-exempt bonds or make farm mortgage loans after the date of enactment of the Act except such as are necessary and incidental to the refinancing of existing loans or bond issues or to the sale of any real estate then held or thereafter acquired. As a result of this legislation the banks now operate for the purpose of liquidating their assets and retiring bonds and other obligations in an orderly manner.

During the period from April 30, 1933, through December 31, 1934, assets of Joint-Stock Land Banks, excluding the three in receivership, were decreased from $478,062,295 to $336,610,929, or by 29.6 per cent. During this period the Corn Belt Joint-Stock Land Bank of Taylorville, Ill., liquidated completely, all outstanding bonds having been paid in full; in addition, two banks reduced their assets by fifty per cent or more; five banks effected reductions of forty to fifty per cent; nine banks thirty to forty per cent; seventeen banks twenty to thirty per cent; and the remaining eleven banks less than twenty per cent. Through the use of cash and securities recovered in the liquidation of assets, the banks reduced their bonds and notes payable from $419,810,184 to $279,399,865, a decrease of 33.5 per cent since April 30, 1933. Most of the bonds

retired were purchased in the market at a discount. The total of such discounts during the period amounted to approximately $42,000,000.

From April 30, 1933, through December 31, 1934, the forty-five Joint-Stock Land Banks not in receivership realized $92,730,103 in cash and Federal Farm Mortgage Corporation bonds through refinancing loans with the Federal Land Banks and the Land Bank Commissioner. Borrowers of Joint-Stock Land Banks who wish to refinance their loans apply to the Federal Land Banks and the Land Bank Commissioner as in the case of other applicants for loans. Those obtaining Federal Land Bank loans subscribe to stock in National Farm Loan Associations or, if the loans are closed direct, in the Federal Land Bank. Borrowers whose obligations are transferred in this manner to the Federal Land Banks or the Land Bank Commissioner realize substantial savings through lower interest rates since most Joint-Stock Land Bank loans bear interest at six per cent. The privilege of temporarily deferring principal payments constitutes a further advantage. In some cases, the Federal Land Banks have purchased loans directly from the Joint-Stock Land Banks. However, any mortgagor whose mortgage has been purchased by a Federal Land Bank is entitled to have his mortgage indebtedness refinanced with the Federal Land Bank on the basis of the amount paid by the bank for his mortgage.

retired were purchased in the market at a discount. The total of such discounts during the period amounted to approximately $43,000,000.

From April 30, 1933, through December 31, 1934, the forty-five Joint-Stock Land Banks not in receivership realized $92,750,103 in cash and Federal Farm Mortgage Corporation bonds through refinancing loans with the Federal Land Banks and the Land Bank Commissioner. Borrowers of Joint-Stock Land Banks who wish to refinance their loans apply to the Federal Land Banks and the Land Bank Commissioner as in the case of other applicants for loans. Those obtaining Federal Land Bank loans subscribe to stock in National Farm Loan Associations or, if the loans are closed direct, in the Federal Land Bank. Borrowers whose obligations are transferred in this manner to the Federal Land Banks or the Land Bank Commissioner realize substantial savings through lower interest rates since most Joint-Stock Land Bank loans bear interest at six per cent. The privilege of temporarily deferring principal payments constitutes a further advantage. In some cases, the Federal Land Banks have purchased loans directly from the Joint-Stock Land Banks. However, any mortgagor whose mortgage has been purchased by a Federal Land Bank is entitled to have his mortgage indebtedness refinanced with the Federal Land Bank on the basis of the amount paid by the bank for his mortgage.

In many instances the appraisals of the mortgaged farms did not justify a loan large enough, after deducting fees and the amount required for subscriptions to capital stock in the indorsing association or the Federal Land Bank, to cover fully the Joint-Stock Land Bank's investment in the loan. The Joint-Stock Land Banks have accepted a substantial number of commitments in which scale-downs were involved, and the total of such scale-downs since April 30, 1933, has amounted to $8,259,790, or 8.2 per cent of the Joint-Stock Land B anks' investment in the loans.

The Joint-Stock Land Banks also have recovered $7,015,664 since April 31, 1933, through the refinancing of loans by or selling loans to individuals or institutions other than Federal Land Banks and the Land Bank Commissioner. The scale-downs taken in connection with these transactions totalled $1,227,783, or 14.9 per cent of the banks' investment in the loans.

In addition to the refinancing of loans, reduction in the amount of loans held by the Joint-Stock Land Banks has resulted from amortization and special principal payments made by borrowers and from foreclosure or acquirement of property through direct deed. From April 30, 1933, through December 31, 1934, the total reduction arising from refinancing, sales, and payments of loans in full has amounted to

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The Joint-Stock Land Banks also have recovered $7,015,564 since April 31, 1933, through the refinancing of loans by or selling loans to individuals or institutions other than Federal Land Banks and the Land Bank Commissioner. The scale-downs taken in connection with these transactions totalled $1,327,783, or 14.9 per cent of the Banks' investment in the loans.

In addition to the refinancing of loans, reduction in the amount of loans held by the Joint-Stock Land Banks has resulted from amortization and special principal payments made by borrowers and from foreclosure or acquirement of property through direct deed. From April 30, 1933, through December 31, 1934, the total reduction arising from refinancing, sales, and payments of loans in full has amounted to

25.4 per cent of the loans outstanding on April 30, 1933; from amortization and special principal payments by borrowers, 3.0 per cent; from foreclosure, direct deed, and charge-off, 11.6 per cent. The decrease from these sources has been offset to a small extent by new loans representing purchase money mortgages accepted in connection with the sale of real estate, making a total net reduction in loans outstanding of 39.8 per cent for the period.

Further liquidation has been effected through the sale of real estate, sheriffs' certificates, and judgments.

Financial Condition

On April 30, 1933, at the beginning of the period of liquidation, many of the Joint-Stock Land Banks were in an unfavorable financial condition. More than one-half of the loans outstanding were in default; real estate, sheriffs' certificates, and judgments owned by the banks equalled 11.1 per cent of their total assets. Nine of the banks showed a capital impairment at that time.

Most of the Joint-Stock Land Banks would have shown losses during the year ended April 30, 1933, had they not realized substantial gains through the purchase of their own bonds below par. The asked prices for Joint-Stock Land Bank bonds on April 30, 1933, ranged from 34 to 68 per cent of par, with an average price of approximately 45.5 per cent of par for all Joint-Stock Land Bank bonds.

During 1934 the Joint-Stock Land Banks not in receivership disposed of 3,820 farms, sheriffs' certificates, etc., involving a carrying value of $17,667,227. The total consideration was $16,706,972, representing 94.6 per cent of the carrying value. While there was no increase during 1934 in the average sales price received per acre, and no appreciable change in the percentage of cash received at the time of sale, the total sale prices were considerably higher in relation to carrying value in 1933.

In spite of the larger volume of sales the carrying value (before deducting reserves) of real estate, sheriffs' certificates, and judgments owned by the Joint-Stock Land Banks increased from $55,816,647 on December 31, 1933, to $58,569,357 on December 31, 1934, or 16.6 per cent of their gross assets as of the latter date.(1)

Federal Intermediate Credit Banks

In each of the twelve Federal Land Bank districts there is one Federal Land Bank and one Federal Intermediate Credit Bank. Both banks in each district have the same board of directors.

The Federal Intermediate Credit Banks provide agricultural credit for periods that are "intermediate" between the maturities usually available through short-term

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(1) Second Annual Report of the Farm Credit Administration, 1934, (Washington, 1935), pp. 35-39

commercial bank loans and those of long-term farm mortgage loans. They are not authorized to make loans directly to individual farmers and stockmen but extend credit to financing institutions, such as production credit associations, State and National banks, livestock loan companies, and agricultural and livestock paper, or they may rediscount such paper with the Intermediate Credit Banks. The Federal Intermediate Credit Banks also make direct loans to Farmers' Cooperative Marketing and Purchasing Associations.

The amount of credit which any credit institution may obtain from a Federal Intermediate Credit Bank depends upon a number of factors, including the amount of its paid-in and unimpaired capital and surplus, the manner in which such capital is invested and the amount thereof pledged with the Intermediate Credit Bank as collateral, the management of the corporation, the character of paper offered and the provisions of law applicable to such institutions. The act under which the Federal Intermediate Credit Banks operate provides that no paper shall be discounted for any bank if the amount thereof, added to its other liabilities (other than hona fide deposit liabilities), exceeds twice the paid-in and unimpaired capital and surplus of such bank. In the case of other agricultural credit institutions, the ratio

usually varies from three to eight times their unimpaired capital and, under the law, may not exceed an amount which, when added to their other liabilities, exceeds ten times their paid-in and unimpaired capital and surplus.

Under the law the discount rate of a Federal Intermediate Credit Bank may not exceed by more than one per cent per annum the interest rate borne by its last preceding issue of debentures.

The rate of interest which a credit institution may charge the farmer on a note discounted by a Federal Intermediate Credit Bank may not exceed the bank's discount rate by more than three per cent per annum. Thus, if an Intermediate Credit Bank sells debentures bearing a rate of two per cent it may, with the approval of the Governor of the Farm Credit Administration, establish a discount rate of three per cent and discount notes on which the maker is charged interest at not more than six per cent per annum.

The experience of the Federal Intermediate Credit Banks indicates that notes of farmers and stockmen should mature at the time the makers expect to market their crops or livestock. Maturities extending beyond three years may in no case be handled by an Intermediate Credit Bank. Ordinarily they range from six to twelve months, but, where the security and other conditions surrounding the paper justify, renewals at maturity are accepted by the Intermediate Credit Banks.

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The maximum amount of credit which a Federal Intermediate Credit Bank may grant to a credit institution on the paper of any one note maker is twenty per cent of the institution's paid-in and unimpaired capital and surplus except on notes secured by warehouse receipts covering readily marketable agricultural products or on paper secured by chattel mortgages on livestock, in which cases the maximum individual line of credit is limited to fifty per cent of the institution's unimpaired capital and surplus.

Loans to Farmers' Cooperative Marketing Associations have been made by the Federal Intermediate Credit Banks upon the security of warehouse receipts and shipping documents covering staple agricultural commodities, including wheat, rice, flaxseed, corn, and other grains; cotton; wool and mohair; tobacco; alfalfa, red clover, clover, sweet-clover; red top, and blue grass seeds; beans, including soy-beans; canned fruits and vegetables, including cold-pack fruits; coffee; raisins, prunes, and other dried fruits; olive oil; extracted honey; maple syrup; broomcorn; sugar (raw and refined); evaporated milk and powdered skim milk; cheese; peanuts and other nuts; and hay.

Such advances may be made either by discounting notes or accepting drafts or bills of exchange issued or drawn by cooperative associations and secured by warehouse

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Such advances may be made either by discounting notes or accepting drafts or bills of exchange issued or drawn by cooperative associations and secured by warehouse

receipts or shipping documents representing staple agricultural products.

The amount which an Intermediate Credit Bank will lend to a Cooperative Marketing Association depends upon the management and financial condition of the association, the character, quality, and marketability of the products offered as collateral, and other factors. In no event may such loans secured only by agricultural products, exceed seventy-five per cent of the market value of the products pledged as collateral.

Loans now may also be made to Farmers' Cooperative Marketing and Cooperative Purchasing Associations upon the security of such collateral as may be approved by the Governor of the Farm Credit Administration.(1)

During 1933 the Federal Intermediate Credit Banks extended credit to cooperative associations and financing institutions, in the aggregate amount of $280,082,064, compared with $240,822,765 during the year 1932.

Of the total volume of business handled during 1933, loans to and discounts for financing institutions amounted to $252,171,568, as compared with $151,577,651 during 1932. The amount of such credit outstanding on December 31 was $134,252,402, as compared with $82,517,754 at the close of the previous year.

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(1) Agricultural Financing through the Farm Credit Administration, Farm Credit Administration, Circular No. 5, (March 1934), pp. 19-21

The Intermediate Credit Banks discounted paper for, or made loans to, 404 financing institutions in 1933. These included twelve regional Agricultural Credit Corporations and thirteen Production Credit Associations, which had not previously obtained credit from the Federal Intermediate Credit Banks.

A large part of the increase in credit extended to financing institutions consisted of paper discounted for the twelve regional Agricultural Credit Corporations established by the Reconstruction Finance Corporation in the fall of 1932. During 1933 the Intermediate Credit Banks discounted notes for these regional Agricultural Credit Corporations in the amount of $110,491,858 upon which repayments to December 31 were made in the amount of $37,255,431, leaving $73,236,427 outstanding on December 31.

Only a small number of commercial banks and new credit corporations or loan companies, organized with private capital, applied to the Federal Intermediate Credit Banks for credit during 1933. Many of the corporations dealing with the banks at the close of the year before had reached the maximum volume of business which the Federal Intermediate Credit B anks considered them capable of handling effectively and safely, unless they increased their paid-in capital. The Banks follow the practice of limiting the amount

of credit granted to any financing institution to an amount which will maintain a reasonable ratio between the total liabilities and the capital of the corporation, taking into consideration the character of the paper handled as well as other credit factors. As few corporations were able to procure additional capital, the volume of discounts for such corporations could not be expanded materially; and many farmers and stockmen whose financial condition and the security which they offered entitled them to credit from the Federal Intermediate Credit Banks could be served only by the regional Agricultural Credit Corporations or commercial banks.

A permanent system of production credit association was being established under the provisions of the Farm Credit Act of 1933, to make loans to farmers and stockmen and to rediscount their eligible paper with the Intermediate Credit Banks. These associations would enable the Intermediate Credit Banks to extend credit for financing producers who were acceptable credit risks but who could not previously be served because of a lack of eligible, adequately capitalized financing institutions to handle their paper.

From January 1 to December 31, 1933, the Federal Intermediate Credit Banks extended credit to sixty-one

cooperative associations in the amount of $27,910,496, as compared with $89,245,114 granted during the year 1932. The amount of loans to cooperative associations outstanding on December 31 was $15,210,549, as compared with $9,865,615 on December 31, 1932.

Much of the reduction in the amount of credit to cooperatives in 1933 was due to the fact that two large borrowers from the Intermediate Credit Banks during the preceding two years, namely, the Grain Stabilization Corporation and the Cotton Stabilization Corporation, liquidated their loans with the Intermediate Credit Banks in full in 1932, and discontinued business. The amount of borrowings by two other large cooperatives was less during the past season than in previous years, attributable in part to a more rapid sale of the commodities handled by them, as a result of which their credit requirements were reduced.(1)

Production Credit Corporations and Associations

The Governor of the Farm Credit Administration was authorized by the Farm Credit Act of 1933 to establish a Production Credit Corporation in each of the twelve cities in which a Federal Land Bank is located. These corporations have the same directors as the Federal Land Banks.

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(1) The First Annual Report of the Farm Credit Administration, 1933, (Washington, 1934), pp. 30-31

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Each Production Credit Corporation has an initial capital of $7,500,000 subscribed and paid for by the Governor of the Farm Credit Administration on behalf of the United States. The capital may be increased or decreased by the Governor to meet the needs of the district served by the corporation. The major portion of the funds required for capital stock subscriptions came from unexpended balances and collections of various Government appropriations for loans, seed loans, etc., made prior to 1933.

The function of a Production Credit Corporation is to invest funds in preferred Class A stock of production credit associations in the district which it serves. It is authorized to purchase stock in each association in amounts sufficient to maintain the Class A stock holdings in the corporation and other investors equal to approximately twenty per cent of the loans made or to be made to farmers by the association. At no time may the amount of outstanding Class A stock in an association be less than $5,000 except with the consent of the association.

Funds invested in the Class A stock of a Production Credit Association will be used by the Association to purchase high-grade bonds, which will be pledged with the Federal Intermediate Credit Bank of the district as additional collateral behind farmers' notes discounted by the Intermediate Credit Bank for the Production Credit Association.

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Class A stock of Production Credit Associations is preferred as to assets on liquidation, is non-voting, and shares equally with Class B stock in dividend distributions.

Production Credit Corporations may subscribe for stock in Production Credit Associations not organized under the Farm Credit Act of 1933 if such associations are controlled by cooperatives and if the amount of stock subscribed for does not exceed at any one time seventy-five per cent of the total paid-in capital of the association.

After determination by the Production Credit Corporation of the territory to be served by a Production Credit Association, ten or more farmers whose operations are in this territory are required to sign an application for a charter. Charters will be issued by the Governor of the Farm Credit Administration and associations will be subject to such rules and regulations as the Governor may prescribe.

Lending Operations

The Production Credit Corporations prescribe the terms, conditions, and rate of interest, and the type of security to be offered in connection with loans made by associations. Loans will in general be restricted to periods of one year or less and none will be made for more than three years. The association and the borrower, to the extent

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of his capital stock, will be held responsible for the loans made to individual members. Association stock does not, however, carry double liability.

Crop loans by Production Credit Associations ordinarily will be secured by a first-mortgage lien on growing crops and other personal property, while livestock loans usually will be secured by a first-mortgage lien on livestock.

The interest rate charged the farmer will vary, depending upon the rate at which the Federal Intermediate Credit Banks are able to borrow money from the investing public through the sale of debentures and the amount that must be added to cover the expenses of the Intermediate Credit Bank and the expenses and possible losses of the association. The rate of the farmer-borrower may not, however, exceed by more than three per cent the rate paid by the Association to the Federal Intermediate Credit Bank.

Associations may make loans to farmers for general agricultural purposes, including the production and harvesting of crops, the breeding, raising and fattening of livestock, and the production of livestock and poultry products. In making these loans the officers of the association will consider not only the security in the form of liens on livestock, work-stock and crops, but also the applicant's net

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worth and personal character, as well as his ability to repay the loan from the proceeds of the salable crops and livestock products of the farm.

Associations will make loans for not less than $50. No individual will be permitted to borrow an amount greater than twenty per cent of the capital and guaranty fund of the association unless his loan is secured by collateral approved by the Production Credit Corporation, in which case a loan up to fifty per cent of the capital and guaranty fund may be made. Loans may be made in excess of fifty per cent of the capital and guaranty fund if they are approved by the Production Credit Commissioner.

Since Production Credit Associations must depend on rediscounting farmers' notes with the Federal Intermediate Credit Banks to obtain funds to loan, the farmers' notes they accept must meet Intermediate Credit Bank standards as to security, maturities, and interest rates. If the capital of an association is invested in acceptable high-grade bonds and they are pledged with the Intermediate Credit Bank as additional collateral behind notes, discounted, the Federal Intermediate Credit Bank will ordinarily discount notes up to four to six times the amount of the bonds pledged as additional collateral. If, for example, a Production Credit Association has paid-in capital of $20,000

which it invests in United States securities and pledges such securities with an Intermediate Credit Bank, it can expect ordinarily to rediscount with the bank farmers' notes in amounts ranging from $80,000 to $120,000.

The capital stock of Production Credit Associations is divided into two classes: Class A which is non-voting but which shares equally with Class B stock in dividend distributions and is preferred as to assets on liquidation; and Class B stock which may be purchased only by farmer-borrowers from the association and persons eligible to become borrowers. Only Class B stock carries voting rights. Each holder of Class B stock is entitled to only one vote regardless of the number of shares owned. Class B stock is not retired upon payment of the loan and may not be transferred except to another farmer-borrower or an individual eligible to become a borrower, and then only with the approval of the directors of the association.

Borrowers through a Production Credit Association are required to own, at the time a loan is made, Class B stock in the association equal in fair book value (not to exceed par) to $5 for every $100 or fraction thereof borrowed from the association. Subscriptions to Class B stock may be paid from the proceeds of the loan.

Each holder of Class B stock, must within two years after he has ceased to be a borrower, exchange such Class B

stock at its fair book value (not to exceed par) for Class A stock. Stock in the Association may be retired under conditions prescribed by the Governor.

The guaranty fund of an Association must equal twenty-five per cent of the paid-in capital before any dividends can be paid.

Production Credit Associations are authorized to borrow from, or rediscount with, Intermediate Credit Banks, but not with other agencies, except with the approval of the Governor of the Farm Credit Administration.

During such times as a Production Credit Corporation is a holder of any stock in a Production Credit Association, the appointment or election of the Association's directors, secretary-treasurer, and loan committee is subject to the approval of the president of the Production Credit Corporation; and, during such time, he may remove any director, secretary-treasurer, or other officer.

Regional Agricultural Credit Corporations

The Emergency Relief and Construction Act of 1932 authorized the Reconstruction Finance Corporation to create in any of the twelve Federal Land Bank districts, when it appeared to be desirable, a regional Agricultural Credit Corporation to make direct loans to farmers and stockmen for agricultural purposes (including crop production), or for

the raising, fattening, or marketing of livestock. Corporations were organized in each of the twelve Federal Land Bank districts and in addition twenty-one branch offices were established.

The twelve corporations have an aggregate capital of $44,500,000 paid in by the Reconstruction Finance Corporation. In addition, they have the privilege of rediscounting eligible paper with the Reconstruction Finance Corporation, the various Federal Reserve Banks and the Federal Intermediate Credit Banks.

All of the functions of the Reconstruction Finance Corporation relating to the appointment of officers and agents to manage regional Agricultural Credit Corporations, approval of interest rate charged borrowers, and approval of the terms and conditions on which loans are made by regional Agricultural Credit Corporations, were transferred to the Farm Credit Administration by the President's Executive Order effective May 27, 1933.

As Production Credit Associations were organized they took over from the regional Agricultural Credit Corporations, the function of furnishing production credit and the latter ceased to make new loans and proceeded, in an orderly manner, in the liquidation of outstanding loans.

Loans by Production Credit Associations

A permanent, cooperative production credit system for agriculture that eventually might be owned, controlled, and operated by farmers was organized in the twelve Federal Land Bank districts throughout the United States.(1)

To be eligible for a loan, an applicant must be a farmer. The term "farmer" includes an individual, partnership, or corporation engaged in the business of farming or of breeding, raising, or fattening livestock.

To be an eligible applicant an individual must devote certain time and energy to the active management of the farming or livestock operations. The enterprise must be conducted so that he reaps the benefits of the operation if it is successful, and suffers the loss if it is a failure. He need not be principally engaged in farming nor reside on the place where the operations are carried on. Where a landlord is entitled only to a fixed return without regard to the success or failure of the farming operations, or where he does not rightfully exercise substantial direction and control in the management of such operation, the tenant, not the landlord, is considered the "farmer". The eligibility of a partnership is governed by the same principles as those governing the eligibility of individuals.

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(1) Loans by Production Credit Association, Farm Credit Administration Circular (Revised), (Washington, November, 1933), p. 3

The secretary of this association will advise corporations on their eligibility requirements.(1)

In each land bank district production credit is to be made available through the joint action of (1) the local Production Credit Associations; (2) the Production Credit Corporation; and (3) the Federal Intermediate Credit Bank. These organizations are under the general supervision of the Farm Credit Administration.(2)

Seed Loans and Crop Production Loans

Under the President's Executive Order of March 27, 1933, the responsibility for making and supervising emergency crop loans was transferred from the Department of Agriculture to the Farm Credit Administration. For the year 1934, $40,000,000 was appropriated for this purpose and placed under the supervision of the production credit commissioner. Loans from this fund were to be made only to applicants unable to obtain credit from other government agencies. Assuming the applicant had satisfactory security to offer, the function of making loans for production purposes, including the purchasing of seed, would be taken over by the local production credit associations created under the Farm Credit Act of 1933.(3)

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(1) Applying for Production Credit, Farm Credit Administration, Circular C, (Washington, Jan. 1934), p. 1
(2) Loans by Production Credit Association, Farm Credit Administration, Circular No. 3 (revised), (Washington, Nov. 1933), p. 3
(3) Agricultural Financing through the Farm Credit Administration, Farm Credit Administration Circular No. 5, (March, 1934), pp. 26-31

A total of $37,891,586 was advanced to 445,198 borrowers during 1934. Although a majority of loans were made during the spring lending season, applications were accepted throughout the year and advances for the production of winter wheat, for summer fallowing, the planting of forage crops, and for vegetable and truck crops as well as feed loans in distressed areas were made throughout the summer and fall. Loans were made in every State, with the exception of Rhode Island, but the majority are concentrated in the southeastern and south central cotton States which received approximately one-third of the total amount advanced. Other areas which drew heavily upon these emergency funds include the north central and western wheat areas.(1)

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(1) The Second Annual Report of the Farm Credit Administration, 1934, (Washington , 1935), p. 64

SUBSEQUENT LEGISLATION

UNDER THE

ROOSEVELT ADMINISTRATION

Public Lands

The income from public lands and industries depends upon the governmental policy in reference to the public domain and in reference to embarking upon industrial enterprises. In the United States notwithstanding the vast extent of the public lands, comparatively little net revenue has been derived from these sources. The public land policy has been controlled until quite recently by the thought that it is better to sell the lands, even for merely nominal sums, to persons who will settle upon them and bring them under cultivation than to treat them as an important source of revenue. In consequence of this policy the Federal Government received prior to 1920 an annual average of less than two million dollars from this source, while it expended considerably more than this upon the bureaus, whose function it is to study and report upon the land and natural resources of the country and to care for the national forests. The income of the states from the public lands has been somewhat larger proportionately, but only for Texas, which entered the Union with a vast public domain, has it ranked as an important source of revenue.

The question has frequently been raised as the wisdom of the land policy pursued by the United States since

1862. The lavish policy of giving away the land perpetuated the pioneer policy of earth butchery. For three hundred years our farmers have been mining the soil and have exhausted its fertility as truly as though they had extracted the elements from a bed of ore. A government report concludes that the fertility of the soil for fifty per cent of the country has been lessened. Indeed it is doubtful whether agriculture, as practiced in the United States, has hitherto been a self-sustaining industry; that is, whether it would have paid if the elements taken out of the soil by crops had been replaced.(1)

The total tax bill against farm real estate, which was $565,000,000 in 1929 and $365,000,000 in 1935, showed the first slight increase in 1936, being estimated at from two to four per cent above the latter figure. From 1913 to 1929 the tax curve had mounted to a peak representing an increase of 141%. At that peak an average tax of $1.27 per acre obtained through the East North Central States; in New Jersey farm real estate taxes averaged $2.80 per acre; in Massachusetts the average in 1929 was $2.20. Since the drastic fall of farm income beginning in 1929 the tax burden has steadily diminished. Between 1929 and 1934 the decrease in taxes throughout the United States averaged 36% per acre.(2)

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(1) Seager, Henry R., Practical Probmems in Economics, (New York), 1923,) pp. 507-508

(2) Farm Credit Administration, Fourth Annual Report of Federal Credit Administration, 1936, (Washington, 1937), pp. 2,3

The World Almanac of 1941 gives the following interesting table.

Public Lands of the United States[1]

	Acres
Title passed from United States	
Homesteads	283,350,450
Cash Sales	419,090,000
State grants for education or other purposes	181,975,263
Canal and river improvement grants to states	6,842,921
Wagon-road grants to states	3,359,188
Grants to states in aid of railroads	38,208,638
Railroad grants to corporations	94,239,448
	1,027,065,908
Total area disposed of	1,027,065,908
Pending and unperfected entries	5,098,829
Title remaining in United States:	
National forests, estimated net area of public lands	134,515,000
National parks and monuments	12,964,592
Indian reservations	54,781,573
Military, naval, miscellaneous reservations	3,336,000
Unappropriated, but withdrawn	199,842,600
Balance, miscellaneous disposals, or withdrawn	4,595,818
Grand total (exact public land area)	1,442,200,320

The Taylor Grazing Act of 1934 closed the public domain to further settlement and subjected grazing on the public domain to Federal regulation for the first time. Under this act, grazing on 142 million acres of public lands in western states is now being regulated by a license system, designed to put a stop to destruction of the land by overgrazing.[2]

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(1) The World Almanac, (New York, 1941), p. 622
(2) Lindley, Ernest K., Half Way with Roosevelt, (New York, 1937), pp. 145-146

By authorizing the Secretary of the Interior to permit homestead entry only on suitable lands, the Taylor Bill provided a partial means of preventing unwise settlement of public domain. Much was done by the states to promote sound methods of land use, zoning, helping to prevent unsuitable or hazardous settlement in some instances. Wisconsinadopted zoning ordinances in some of its cut-over counties and several other states made a beginning in rural zoning.

Under the provisions of Section 208 of the National Industrial Recovery Act, the Division of the Interior approved plans for fifty-eight projects. Each project included from twenty-five to three hundred homesteads of from one to five acres in size. These involved garden homesteads for industrial workers, subsistence homesteads for stranded industrial groups, and subsistence homesteads for agricultural groups. For the last, submarginal areas of the old cotton belt, of the cut-over lands of lake states, and of certain dry farming regions of the northwest Great Plains, were chosen as demonstration sites.(1)

A beginning was made in 1933 and 1934 with the Soil Erosion Bureau in the Department of the Interior, which later became the Soil Conservation Service in the

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(1) The New International Red Book, Events of 1933, (New York, 1934), p. 653

Department of Agriculture, with a land-retirement program, in the Indian Office, in the Subsistence Homesteads Division, and with the Rural Rehabilitation activities of the Federal Emergency Relief Administration. Dr. Tugwell devised a plan for taking over large areas of sub-marginal land on which taxes were in default by offering low interest-bearing Federal bonds to states and localities.(1)

In 1935, all lands were withdrawn from entry except mining claims, to wait until surveys had decided on the best use for types of land, and to start the Taylor Grazing Act properly.(2) In 1935 the land-retirement and rural-rehabilitation programs were placed in the hands of Dr. Tugwell's Resettlement Administration and began to move ahead more rapidly.(3)

Soil Conservation Service is helping farmers and public agencies to attack a wide variety of physical land problems with a view to advancing social and economic conditions through control of erosion, conservation,of rainfall and desirable adjustments in the use of agricultural land. An increasing amount of the Service's work in 1940 was, and will continue to be, concentrated in local soil

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(1) Lindley, Ernest K., Half Way with Roosevelt, (New York, 1937), p. 131
(2) Donaldson, Mac. H., Labor Problems in the United States, (New York, 1940), p. 128
(3) Lindley, Ernest K., Half Way with Roosevelt, (New York, 1937,) p. 131

conservation districts. These local subdivisions of states, organized by farmers under state law, have now been established in thirty-eight states upon request. The Service goes into the district and plans an active part in its operation program on the land. It helps make preliminary surveys and assigns a technical staff to aid the farmers in developing and carrying out soil conservation plans. In addition, the Service may make equipment available, provide seed and seedlings for erosion, control planting and furnish CCC labor to assist getting conservation work started. At the close of the year 1940 erosion control work under the Service's guidance in projects, camps, districts, and other areas was either completed or underway on nearly 120,000 farms covering more than 30,000,000 acres and located in every state, Hawaii and Puerto Rico. It relieves social and economic maladjustments in rural areas by purchasing land unsuited to cultivation and developing it for some better adapted use, such as forestry, grazing or wild life. The Service this year purchased approximately 1,500,000 acres. A total of approximately 11,000,000 acres have been purchased under this program. The year brought a great increase in the number of farm forestry projects established in predominately agricultural areas. The Service helps farmers build up woodlands both for income

product and erosion control. At the same time the farmers are assisted in the development of conservation plans for crop lands and pastures. During the year thirty-two projects were started. So far thirty-five farm forestry projects have been established in thirty-one states. Under the supervision of the Service thirty-nine CCC camps are engaged in farm drainage work in eleven states. In addition to action on land, the Service is also conducting programs of research in soil conservation, flood control, drainage, irrigation, etc.(1)

The following is a quotation from Ogden Mills in his book The Seventeen Million on the subject of a wise land program:

"Soil conservation is a national problem. It is of universal import. There is no controversy as to the desirability of government participation in this field. The question is that of merging a long-time national universally accepted program with measures having to do with temporary farm relief expediencies. I do not believe it wise to use the light truck of conservation to haul the heavy trailer of farm relief. Each should be independent of the other. These are ways of strengthening farm life. There is a wise land use program. We now have farms where

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(1) The New International Events of 1940, 1941 Yearbook, Events of 1940, pp. 699-700

no farms should be. Land has been plowed that should never have been plowed. A lack of a national land policy has contributed to an impoverished agriculture. The correction of this situation is a legitimate government function. It calls for government acquisition or control of abandoned and non-productive farm land.

"Instead of a blanket program carried out according to dictates from Washington, it should be made sufficiently flexible to fit local conditions and to supplement state and local plans of zoning, land purchase, or reforestation. We must not permit the weight of Federal funds to continue to dictate policy, and to dominate action in matters of so vital concern to state and local communities."(1)

With all their faults the homestead laws established millions of people in their own homes and were a major factor in settling part of the West. Vast areas still remain.

Rural settlement projects are intended to move farmers from places where they cannot make a good living and to start them where they can. The Matanuska, Alaska, project has been the most advertized. Senator Byrd's report that their expense is prohibitive, was not unexpected. But even so, it may prove cheaper in the long run than straight

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(1) Mills, Ogden L., The Seventeen Million, (New York,1937) pp. 115-116

relief. Other settlement attempts to combine small gardens with part-time jobs have received severe criticism as too expensive and as Government subsidy of new, competing industries in over-crowded lines. The door they open to workmen does not seem as large as that under the old Homestead Law, with all its faults. But these experiments may work out a plan better suited to the times.(1)

Extension of the Farm Credit Administration

Drought Relief Loans, 1934-1935

An act of Congress approved June 19, 1934, appropriated $525,000,000 to be allocated by the President for relief in agricultural areas seriously affected by the drought. Of the total appropriation $96,785,000 was allocated to the Governor of the Farm Credit Administration for (1) making loans to farmers for and/or (2) the purchase, sale, gift, or other disposition of seed, feed, freight, summer fallowing, and similar purposes. Later $10,000,000 of this amount was transferred to a reserve account to be held pending the enactment of legislation authorizing its transfer and use for other emergency needs. The administration of these drought loans was assigned to the various emergency crop loan offices, under the immediate supervision

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(1) Donaldson, Mac. H., Labor Problems in the United States, (New York, 1940), pp. 127-128

of the Production Credit Commissioner. The county committees and field supervisors functioning in connection with the 1934 emergency crop loans were in most instances authorized to act upon applications for drought loans. Since the local machinery for administering these loans was already available, producers obtained funds with a minimum of delay, the first loans being disbursed on July 3, only two weeks after the legislation was enacted.(1)

Central Bank for Cooperatives

A Central Bank for Cooperatives with its principal office in the District of Columbia has been organized and chartered by the Governor of the Farm Credit Association. The initial capital stock purchased by the Governor was $50,000,000. The amount of the capital stock may be carried by the Governor as required to meet the credit needs of eligible borrowers. Cooperative Associations obtaining loans from this bank must own or purchase, at the time the loan is made, an amount of stock in the bank equal in fair book value (not to exceed par) to $100 per $2,000 or fraction thereof borrowed. Stock is to be retired on payment of the loan at the purchase price, less the pro rata impairment, if any.

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(1) The Second Annual Report of the Farm Credit Administration, 1934, (Washington, 1935), p. 67

If the State law under which a Cooperative Association is organized does not permit it to subscribe to stock in the Central Bank, it must, in lieu of a stock subscription, pay into a guaranty fund an amount equal to the stock subscription it otherwise would have been required to make.

Loans may be made to a Cooperative Association to assist in:

(1) Effective merchandising of agricultural commodities and food products thereof and the financing of the Association's operations; and

(2) Construction or acquisition by purchase or lease, or refinancing the cost of such construction or acquisition, of physical marketing facilities, for preparing, handling, storing, processing, or merchandising agricultural commodities or their food products.

Loans to Cooperative Associations for the construction or acquisition of physical facilities by purchase or lease, or for refinancing the cost of the construction or acquisition of such facilities, are subject to the following conditions:

(1) No loan may be made in an amount in excess of sixty per cent of the value of the facilities.

(2) No loan for the purchase or lease of such facilities may be made unless the Governor of the Farm Credit Administration finds that the purchase price or rent to be paid is reasonable.

The principal of loans for the construction or purchase of physical facilities must be repaid upon an amortization plan over a period of not to exceed twenty years. Interest, of course, must be paid currently.

In addition to making loans to cooperative associations, the Central Bank for Cooperatives is authorized to make loans to the twelve regional Banks for Cooperatives under terms and conditions prescribed by the Cooperative B ank Commissioner who is chairman of the board of directors of the Central Bank for Cooperatives.

The law provides that loans to any Cooperative Association shall bear such rates of interest as the Governor of the Farm Credit Administration shall prescribe by regulation, but in no case may the interest rate be less than three nor more than six per cent per annum. The law provides that the Governor shall fix such rates as he deems

the needs of the lending agencies require, subject to the following provisions:

(1) In the case of loans made for the effective merchandising of agricultural commodities and food products thereof and the financing of the operations of Cooperative Associations, the rate shall, as nearly as practicable, conform to a rate of one per cent in excess of the Federal Intermediate Credit Bank discount rate at the time the loan is made.

(2) In the case of facility loans the rate of interest shall, as nearly as practicable, conform to the prevailing rate on mortgage loans made to members of National Farm Loan Associations at the time the loan is made.

The Central Bank for Cooperatives, as well as the twelve regional Banks for Cooperatives,may make loans to cooperative purchasing organizations as well as to cooperative processing and marketing organizations.

After operating expenses, losses, and amounts necessary to restore impairment of capital, if any, have been deducted from earnings, the Central Bank for Cooperatives

must apply twenty-five per cent of the remainder to the creation and maintenance of a surplus equal to at least twenty-five per cent of capital and guaranty fund. Any sums remaining may, with the approval of the chairman of the board, be devoted to the payment of dividends which shall not exceed seven per cent.

The Central Bank for Cooperatives may issue debentures in amounts not to exceed five times its paid-in capital and surplus, such debentures to be secured by cash, direct obligations of the United States, or notes or other obligations discounted or purchased or representing loans made under the Farm Credit Act of 1933.

The Governor of the Farm Credit Administration was authorized by the Farm Credit Act of 1933 to organize and charter twelve regional Banks for Cooperatives to be located in the same cities and to be governed by the same board of directors as the twelve Federal Land Banks.

The capital stock of each Bank for Cooperatives is such as the Governor determines is needed to meet the credit needs of borrowers in the district eligible to borrow under the Act.

The provisions relative to stock subscriptions by Cooperatives borrowing from the regional Banks are the same as for Cooperatives borrowing from the Central Bank for Cooperatives.

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The provisions relative to stock subscriptions by Cooperatives borrowing from the regional Banks are the same as for Cooperatives borrowing from the Central Bank for Cooperatives.

Regional Banks for Cooperatives are authorized to make loans to Cooperative Associations for the same purposes and subject to the same conditions and limitations as the Central Bank for Cooperatives, except that such loans are subject to such terms and conditions as may be prescribed by the board of directors of the regional Bank with the approval of the Governor.

The Governor of the Farm Credit Administration has the power to prescribe the division of lending authority between the Central Bank for Cooperatives and the regional Banks for Cooperatives. It is contemplated that loans of less than $500,000 will be made by the regional Banks and that loans of $500,000 or more will be made by the Central Bank for Cooperatives. All applications for loans in excess of $300,000 will be made to the Central Bank for Cooperatives; at the discretion of the Cooperative Bank Commissioner, those under $500,000 may be referred to the regional Banks for final action.

Provision relative to earnings, reserves, surpluses, etc., are the same for the regional Banks for Cooperatives as for the Central Bank for Cooperatives. Regional Banks may discount paper with the Central Bank for Cooperatives.[1]

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(1) Agricultural Financing through the Farm Credit Administration, Farm Credit Administration Circular, No. 5, (March, 1934), pp. 22-25.

In addition to the credit service available to cooperatives through the Central Bank for Cooperatives and the twelve Banks for Cooperatives, the Cooperative Division renders assistance to farmers' Cooperative Buying and Selling Associations in solving organization and management problems and in developing sound financial policies. This work is closely related to the credit function of the banks, since such service makes borrowing cooperatives better credit risks, and assistance to new and non-borrowing associations is a factor in determining the ultimate success of the whole cooperative movement.

Progress is being made in the cases of practically all cooperatives in placing them on a strong, self-supporting basis. Attention is being given to internal operating policies stressing economy and efficiency in assembling and merchandising farm products in order to increase returns to producers and to improve the financial and operating statements of Cooperatives with a view to developing effective budgetary control; suggestions and counsel are given when requested on organization, membership, and management problems; and studies are made of specific problems confronting Cooperative Associations.

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For example, during the last year detailed investigations of cooperative marketing problems in the cotton-mill areas of the southeast were made by the Cooperative Division, and comprehensive reports with recommendations for increasing efficiency were prepared for use of the associations. A survey covering fluid milk marketing in the principal northeastern cities was prepared jointly with the National Cooperative Milk Producers' Federation and the Cooperative Division to furnish basic information that may lead to closer coordination of the associations selling milk in those large markets.

Special business analyses were made of the activities of the livestock and wool marketing organizations to develop constructive recommendations for reducing operating costs. Surveys of the entire livestock production and marketing industry in a number of range States have been made to provide information for cooperative livestock marketing agencies. Specialists in the Cooperative Division were also instrumental in carrying out the Farm Credit Administration's wool plan which resulted in the orderly marketing of wools financed by regional agricultural credit corporations and the Federal Intermediate Credit Banks.

Suggestions were given Cooperatives handling fruits and vegetables in the development of a national

marketing organization to serve the interest of the fresh fruit and vegetable shipping associations. Analyses of operating expenses and functions of local farmer-elevator cooperatives were made in cooperation with the State agricultural colleges in an effort to assist the locals in efficient handling of grains. Studies were also made of tobacco marketing and recommendations were made to tobacco cooperatives to secure greater efficiency in marketing.(1)

Since the establishment of the Central Bank for Cooperatives and the twelve banks for Cooperatives, loans from the revolving fund under the Agricultural Marketing Act have been made to Cooperatives only in instances in which a Cooperative may have balances due from commitments made by the Federal Farm Board or in certain cases in which an additional loan from the revolving fund is needed to protect the security behind an old loan or to enable a Cooperative to continue in business and eventually pay its obligations to the fund.

Loans outstanding from the revolving fund of the Agricultural Marketing Act will be liquidated by the Farm Credit Administration as rapidly as possible, but with full consideration to the interest of the Cooperatives involved.

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(1) First Annual Report of the Farm Credit Administration, 1933, (Washington, 1934), pp. 41-42

From September 12, 1933, the date of the establishment of the Central Bank for Cooperatives, to December 31, 1933, repayments to the revolving fund totalled $20,257,765, while advances therefrom totalled only $1,458,766. Of the amount advanced during this period $224,752 were on old commitments under which the Farm Credit Administration was carrying out obligations incurred by the Federal Farm Board.

On December 31, 1933, loans outstanding from the revolving fund of the Agricultural Marketing Act amounted to $167,909,885. Of this amount $97,978,310 represented loans to the cotton and wheat stabilization corporations and $69,931,575 to cooperatives. Out of a total of $745,768,174 advanced to the stabilization corporations, only $450,404,720 has actually been repaid up to December 31, 1933. Against the balance advanced but not repaid the corporations have been credited with $197,385,144 by statutory authority for 844,063 bales of cotton and 85,000,000 bushels of wheat donated by Congress to the American National Red Cross for relief purposes. Congress made no provision for reimbursing the revolving fund for this reduction in loans outstanding and the fund was, therefore, reduced by these transactions. Ultimate losses on the $97,978,310 of

loans outstanding to the stabilization corporations have not been determined.

Of the $69,931,575 of loans to Cooperatives outstanding December 31, 1933, loans for effective merchandising totalled $46,327,929, commodity loans totalled $10,751,611, and loans on facilities amounted to $12,852,035. The effective merchandising loans are for the most part short-time loans. Most of the commodity loans are being liquidated rapidly by sale of the commodities held as collateral, but some of the facility loans outstanding will not mature for as long as eighteen years. In general, however, facility loans mature within ten years and are payable in ten annual installments.

The Agricultural Adjustment Act directed the Farm Credit Administration to sell to the Secretary of Agriculture all cotton which it owned, or to take the necessary action to acquire legal title to the cotton whereby it could be sold to the Secretary of Agriculture. This applied to all divisions except the Federal Intermediate Credit Banks. The revolving fund of the Agricultural Marketing Act had loans of $96,232,348, exclusive of interest accrued thereon to May 12, 1933, in the amount of $293,024, due from the American Cotton Cooperative Association and the Staple Cotton Cooperative Associations arising from the 1930-1931

operations. These loans were secured by 1,128,802 bales of spot cotton and 435,900 bales of cotton represented by futures contracts. This cotton was sold to the Secretary of Agriculture pursuant to the Agricultural Adjustment Act. The total sums received for the cotton and other assets provided for in the Act reduced the $96,232,348 to $32,299,605, of which sums received $31,000,246 was paid by the Secretary of Agriculture covering adjustments due on the futures in the amount of $221,795 and five cents per pound less certain deductions agreed upon on the cotton netting $30,778,451; $26,407,627 was received from Section 220 National Industrial Recovery Act; and $6,524,870 was received from liquidation of other assets. The price received was 9½ cents per pound, of which 5 cents per pound was paid by the Secretary of Agriculture. The Secretary of Agriculture withheld $1,619,918 of the purchase price of the cotton until May 1, 1934, from which to pay any adjustments that customarily follow the cotton. This arrangement was to be terminated May 1, 1934, and the balance remaining would be paid to the Farm Credit Administration. In addition to the foregoing, futures contracts covering 19,300 bales of cotton were transferred to the Secretary of Agriculture.

Interest rates on loans made by the Federal Farm Board range from one-eighth of one per cent to three and five-eighths per cent in accordance with the original provisions of the Agricultural Marketing Act. In instances in which new loans are made by the Farm Credit Administration from the revolving fund of the Agricultural Marketing Act, four per cent is charged on effective merchandising loans and $4\frac{1}{2}\%$ on facility loans to conform to the rates charged by the Central Bank for Cooperatives and the twelve banks for cooperatives under the Act as amended. In proper cases where extensions or modifications of provisions of outstanding loans are granted, the interest rates on such loans are revised to conform with the new rates.(1)

Federal Credit Unions

The Federal Credit Union Act, approved June 26, 1934, authorized the organization of Federal credit unions under charters issued by t he Governor of the Farm Credit Administration, who is also responsible for approving their by-laws and prescribing regulations for their operations. Credit unions are cooperative thrift and loan associations designed to supply their members with a simple and convenient

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(1) First Annual Report of the Farm Credit Administration, 1933, (Washington, 1934), pp. 54-56

system for saving and to make it possible for them, with their own savings and under their own management, to meet their short-term credit requirements at reasonable rates of interest.

Membership

Membership in a credit union is limited to persons having a common bond of occupation or association, and to groups within a well-defined neighborhood or rural district. Each member must subscribe for at least one share of \$5.00, payable either in cash or in installments. He may also save in larger sums. In addition, each member is required to pay an entrance fee of twenty-five cents.

Loans

Loans may be made to members only, for a period not to exceed two years, and must be for provident or productive purposes. An unsecured loan may not exceed \$50 in amount and no loan may exceed \$200 or 10% of the unimpaired capital and surplus of the credit union, whichever is greater. Surplus funds may be invested only in United States Government obligations or in securities fully guaranteed as to principal and interest by the Federal Government.

Management

The management of a Federal credit union is entrusted to a board of directors of not less than five members; a credit committee of not less than three members; and supervisory committee of three members; not more than one of whom may be a director. All these persons are chosen by and from the members at their annual meeting, each member having one vote regardless of the number of shares he may own.

The first Federal credit union was chartered October 1, 1934. By the close of the year seventy-eight applications for charters had been granted in twenty-two states.(1)

Emergency Crop and Feed Loans

Loans made by the Emergency Crop and Feed Loan Section of the Farm Credit Administration were authorized by Executive Order of the President, February 28, 1936. The order allocated $37,000,000 for this purpose. Under terms of the order the Governor of the Farm Credit Administration was authorized to make loans to farmers and stockmen for the purpose of financing the fallowing of land, the production and harvesting of crops, and the purchase and

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(1) The Second Annual Report of the Farm Credit Administration, 1934, (Washington, 1935), pp. 76-77

production of feed for livestock. It prescribed that the amount which may be loaned to any one borrower should not exceed $200. This amount later was increased, by amendment, to $400 in the instance only of winter wheat loans. Improvement in fall planting conditions in western wheat areas, following the summer drought, prompted this additional financing.

Loans

Loans for crop production were secured by a first lien--or an agreement to give a first lien--on all crops of which the production or harvesting was financed, in whole or in part, by the proceeds of the loan. Loans disbursed for the purchase or production of feed for livestock are secured by a first lien upon the livestock to be fed.

In administering the 1936 loan the Emergency Crop and Feed Loan Section followed the policy of giving preference to farmers whose cash requirements were small, or restricting loans to farmers who could not obtain credit from other sources, and of refusing further credit to farmer-borrowers who had not shown good faith in connection with former loans--specifically, who had made unauthorized use of the loan proceeds or had failed to repay when able to do so. These loans were limited to the

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actual amount needed by the applicant to finance his crop or livestock operations.(1)

Improvement in Circumstances for Farm Credit Administration

The year 1936 saw the Farm Credit Administration operating under two favoring circumstances. One, quite outside its own initiative, was the very definite turn of the Nation's agriculture away from the distressed conditions of the past six years. The second, following logically upon the first factor and in a large sense the result of three years' concentration upon emergency problems, was that for the first time since the Farm Credit Administration began to function it was left free to pursue the primary, long-view purpose for which it was designed.

The Farm Credit Administration devoted the year 1936 chiefly to realigning its position to bettered national circumstances, to refining and simplifying methods of procedure, building more solidly its relationships with stockholders, and assisting them in assuming greater responsibility in the operation of the several credit units in which they have a financial as well as a community interest. The first three years were devoted to salvaging and building; 1936 was a year of consolidating. Emergency work,

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(1) The Fourth Annual Report of the Farm Credit Administration, 1936, (Washington, 1937), p. 72

which had been so compelling from 1933 through to the end of 1935, had been resolved to loans made by the Land Bank Commissioner, extensions, deferments, and interest reductions on such loans in drought areas and to the administration of congressional grants for seed and feed loans.

A marked falling off in all types of emergency credit extension during the year was a certain evidence of the disappearance of the financial stress marking the years 1929-1935. A positive side of the picture was presented by the 1936 activities of the banks for cooperatives, the intermediate credit banks, and the production credit associations. A marked increase in the volume of business done indicated improvement in agricultural conditions as well as in the credit rating of cooperatives and individual producers alike.

The business of the twelve Federal Land Banks for the year 1936 continued to show a marked decrease from that of the year before; even as the volume of loans closed in 1935 indicated a lessening of the pressing need for refinancing which reached its height in 1934. The number of applications for mortgage loans--for all purposes--dropped from 162,968 during 1935 to 84,030 received up to December 31, 1936. Land Bank loans closed during 1936 totalled 26,362, representing a volume of $109,170,000. In 1935,

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The business of the twelve Federal Land Banks for the year 1936 continued to show a marked decrease from that of the year before; even as the volume of loans closed in 1935 indicated a lessening of the pressing need for refinancing which reached its height in 1934. The number of applications for mortgage loans--for all purposes--dropped from 162,968 during 1935 to 84,030 received up to December 31, 1936. Land Bank loans closed during 1936 totalled 25,362, representing a volume of $109,170,000. In 1935,

58,968 loans for $248,671,000 represented the year's transactions. Acting as agents for the Land Bank Commissioner, the banks closed 38,929 loans for $77,258,000 in the last year.

The peak month in the depression period of refinancing farmers threatened with foreclosure--March--registered a volume of Federal Land Bank loans closed of over $89,346,000. During the first nine months of 1936 the total of land bank loans closed was only $89,664,000.

Though devastating drought exacted its toll over large sections of agrarian United States during the year, the fundamental soundness of the Farm Credit Administration's structure was demonstrated by the circumstance that throughout the country as a whole there was an increase in principal payments upon loans.

As of December 31, 1936, the Federal Farm Mortgage Corporation had issued $1,631,552,000 of its bonds, of which $209,367,500 had been retired. On this date outstanding Land Bank Commissioner loans totalled $836,778,000. Land Bank bonds held by the Corporation through purchase or exchange totalled $761,130,000 on the same date. During 1936 the twelve Federal Intermediate Credit Banks were enabled to continue the previous year's noteworthy service to agriculture. Favorable conditions in the financial markets

permitted the sale of the banks' consolidated debentures on the lowest interest cost basis since their organization, thus making it possible for them to maintain a two per cent discount rate in the continental United States. Loans and discounts of the Federal Intermediate Credit Banks during 1936 totalled $381,661,000, compared with $414,156,000 for 1935.

The volume of business done by the 551 production credit associations over the year 1936 registered a marked advance over that of the prior year. Loans closed during the year totalled $228,090,000, compared with $196,306,000 disbursed in 1935.

The Central Bank for Cooperatives in Washington and the twelve district banks of like character--one in each Farm Credit Administration district--continued during 1936 expanding their credit service to cooperative marketing and purchasing agricultural associations and farm service business associations, such as mutual insurance and water companies and farmers' land terracing cooperatives. Their volume of advances on commitments increased from $66,348,000 in 1935 to $81,294,000 in 1936. During 1936 repayments to the revolving fund aggregated $36,270,000. On December 31, 1936, $121,762,000 of loans were outstanding.(1)

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(1) The Fourth Annual Report of the Farm Credit Administration, (Washington, 1937), pp. 1-12

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The volume of business done by the 581 production credit associations over the year 1936 registered a marked advance over that of the prior year. Loans closed during the year totalled $228,090,000, compared with $196,305,000 disbursed in 1935.

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(1) The Fourth Annual Report of the Farm Credit Administration, (Washington, 1937), pp. 1-12

Farm Credit Act of 1937

Aside from the emergency refinancing of farm mortgages during the years 1933-1935, nothing of greater significance has occurred in the history of the Farm Credit Administration's operations than the passage by Congress of the Farm Credit Act of 1937, which assures the permanency of the fundamental cooperative ideas underlying them.

The Farm Credit Act of 1937 approves the grouping of neighboring national farm loan associations under a common board of directors. A single board serves for each association voluntarily subscribing to this arrangement. Among other provisions of the Act is one which provides for the annual payment by each Federal Intermediate Credit Bank to the United States of a franchise tax of 25% of its net earnings remaining after provision for expenses, losses, and reserve requirements for the fiscal year. To provide a broader designation of the twelve Federal Land Bank districts and one which would embrace all four permanent units in those districts the new legislation changed their name to "Farm Credit Districts".

The downward curve of applications for Federal Land Bank loans, which began in 1934 with diminishing requirements for refinancing under the stress of the depression,

continued through 1937. In that year the total volume of Federal Land Bank loans closed was $63,902,000. On the last day of the year the twelve banks had 635,776 loans outstanding for $2,035,307,000.

Notwithstanding renewal of drought conditions over some already long-afflicted territories and a marked price drop in many staple farm commodities affecting wide areas, collection on Federal Land Bank loans continued to improve during 1937. The Farm Credit Act of 1937 established a provision for the making of "conditional payments" on land bank loans. Under terms of this enactment a borrower finding himself with a comfortable surplus at harvest time, or other occasion, may make a conditional payment with the Federal Land Bank holding his mortgage, out of which future maturing installments shall be drawn. The unused balance may draw interest until such time as it has all been applied to loan payments.

The Act establishing the Federal Farm Mortgage Corporation was amended by the Farm Credit Act of 1937 to permit extensions on its loans when, in the judgment of the directors, conditions justify such action.

During its regular 1937 session, Congress for the first time established a temporary emergency interest rate for Commissioner loans comparable to the temporary interest

reduction on land bank loans which had been effective for three years past. By this legislation, interest on Commissioner loans was reduced from five to four per cent per annum for interest payable on installment dates occurring during the two-year period ending July 21, 1939.

The outstanding feature of activity for the banks for cooperatives during 1937--and one having very lively interest for agriculture generally--was the Nation-wide survey of all farmers' cooperative associations which was undertaken by them.

An act of Congress approved January 29, 1937, authorized the year's emergency crop and feed loans to farmers and livestock men and appropriated $50,000,000 to cover disbursements on such loans. The act prescribed $400 as a maximum loan to any single borrower.(1)

The program of decentralizing the cooperative farm mortgage system begun in 1935, neared completion during 1938. Under this program the national farm loan associations are placing their operations on a self-supporting basis and are taking the necessary responsibilities in making new loans and servicing old ones as was intended, but never entirely realized, by the original Farm Loan Act in 1916.(2)

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(1) The Fifth Annual Report of the Farm Credit Administration, 1937, (Washington, 1938), p. 1-12

(2) The Sixth Annual Report of the Farm Credit Administration, 1938, (Washington, 1939), pp. 203

A Nation-wide survey of farmers' cooperative associations conducted jointly by the Farm Credit Administration, the district banks for cooperatives, and about thirty state agricultural colleges and universities was completed during 1938. This survey, covering the 1936-1937 marketing period, showed more than 15,500 farmer-owned and farmer-controlled cooperative associations and mutual companies operating in the United States.(1)

Later A.A.A. Legislation

In 1934 a number of laws were passed modifying and broadening the scope of the original Agricultural Adjustment Act. The first of the amendments was the Jones-Connally Cattle Act, approved April 7. This authorized an appropriation of $200,000,000 to provide for surplus reductions and production adjustments in the dairy-and-beef-cattle industries and to support and balance the markets therefor; and authorized the appropriation of an additional $50,000,000 to be used for relief purchases of dairy and beef products and for the elimination of diseased dairy and beef cattle. Under this act the A.A.A. program for the elimination of cattle afflicted with tuberclosis,

(1) The Sixth Annual Report of the Farm Credit Administration, 1938, (Washington, 1939), p. 8

Bang's disease, and mastitis, and the 1934 Drought Emergency Livestock Purchase Program were begun.

The Bankhead Cotton Act, approved April 21, 1934, supplemented the original Agricultural Adjustment Act by adding to the voluntary acreage-reduction methods a control over the volume of cotton marketed.

Similar in intent to the B ankhead Cotton Act was the Kerr Tobacco Act, approved June 28, 1934. It added to the voluntary acreage reduction method a control over the volume of tobacco marketed. A tax was imposed upon the sale of all tobacco with respect to which the Act was applicable. These two acts were repealed in 1936.

The Jones-Costigan Sugar Act, approved May 9, 1934, added sugar beets and sugar cane to the list of basic commodities covered by the Agricultural Adjustment Act. It authorized the establishment of annual marketing quotas for domestically produced sugar and for sugar imported into the United States.

The DeRouen Rice Act provided for a processing tax of one cent per pound on rough rice; the elimination of floor-stocks tax on clean rice; and the issuance of tax-payment warrants to be used to pay the rough-rice tax on rice from the 1933 and 1934 crops which had been purchased

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in accordance with provisions of the rice-marketing agreements and licenses or which remained in the hands of the growers.

Following the Supreme Court decision on May 27, 1935, in the N.R.A.-Schechter Poultry Corporation case, the AAA was amended with a view to insure its constitutionality and to strengthen, clarify, and simplify the legislative bases of the adjustment program.

These revisions were accomplished by amendments in the form of a new act, approved August 24, 1935, which limited and defined the authority delegated to the Secretary of Agriculture. Throughout the act he was directed rather than authorized to investigate facts and to effectuate specified correctives if investigations revealed certain conditions.

The decision of the Supreme Court in the Hoosac-Mills case on January 6, 1936, invalidating the production-control provisions of the AAA, necessitated immediate action by Congress to protect the country from the consequences of sudden stoppage of the farmers' adjustment programs. Congress adopted the act of February 10, 1936, repealing the Kerr Tobacco Act, the Bankhead Cotton Act, and the Potato Act. In addition, the Supplemental Appropriation Act, fiscal year 1936, approved February 11, 1936, appropriated

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$296,185,000 to meet all the Government's obligations and commitments incurred as of January 6, 1936, under the provisions of the AAA as amended.

In order that farmers might not be left wholly defenseless without any program after the Hoosac-Mills decision, Congress immediately began work on legislation to take the place of invalidated parts of the AAA. Sections 7 to 17, inclusive, of the Soil Conservation and Domestic Allotment Act were enacted on February 29, 1936 and became the chief basis for AAA agricultural conservation programs. On the basis of the new legislation, the Agricultural Adjustment Administration entered the second major phase of its activity. In this second phase, emphasis still was placed on the problem of increasing agricultural income but the increase was sought primarily through payments for the adoption of land uses and farm practices which would conserve and build up soil fertility instead of through the adjustment of production or marketing. Direct Federal aid is authorized until January, 1942.

The Agricultural Marketing Agreement Act was approved June 3, 1937. The act provides for marketing programs which operate through marketing agreements or orders issued by the Secretary of Agriculture under specified conditions.

The Agricultural Adjustment Act of 1938 was enacted on February 16, 1938. With this statute the Administration entered the third phase of its adjustment activity.

Unusually favorable growing conditions in 1937 and the prospect of excellent crop conditions in 1938 revealed the inadequacy of the conservation approach alone in a series of years of bumper crops. A broader program based on control of larger reserves through storage seemed distinctly advisable if the problems both of surplus and of drought were to be met. This realization is embodied clearly in the Ever-Normal-Granary idea, which served as the starting point for the 1938 legislation, and which sought to combine in one permanent program the constitutional features of each of the earlier programs.

The structure of the 1938 act itself serves to emphasize the compromise which it affects between the early and intermediate legislation. The early sections of the act are a legislative strengthening and continuation of the conservation programs carried out under the Soil Conservation and Domestic Allotment Act, and the later sections set up marketing and storage provisions for control of surpluses. The new features of the act lie in the Ever-Normal-Granary plan embodied in the provisions for

encouraging commodity storage under a certain market conditions and for beginning a Federal crop insurance program for wheat.

Among a number of other provisions in the act, the following are most important from the standpoint of furnishing further legislative background for the adjustment programs:

1. The act authorizes the Secretary of Agriculture to prosecute before the Interstate Commerce Commission any freight-rate cases affecting the transportation of farm products.

2. It authorizes the establishment and maintenance of four regional laboratories to develop new uses and markets for farm products, and authorizes not over $4,000,000 annually for this purpose.

3. It extends the time of operation of the Federal Surplus Commodities Corporation to June 30, 1942.

4. It requires commercial handlers of the five major commodities subject to marketing quotas to record and report such information as the Secretary of Agriculture requires in administering provisions of the act.

5. Beginning with the 1938-1939 fiscal year, it requires division of funds for administering the act, the

agricultural conservation programs under the Soil Conservation and Domestic Allotment Act, and the diversion and surplus removal programs, on the basis of one per cent of the total appropriations for expenses in the District of Columbia and two per cent for expenses in the States.

This outline indicates the nature of the evolution which is taking place in national agricultural policy. The democratic nature of that evolution is evident not only in the legislative insistence that the adjustments be voluntary for the individual, but also in the increasing insistence that the nature and extent of the adjustments encouraged by the Government be determined more and more by the actual needs of the people as a whole. The Agricultural Adjustment Act represents the present culmination of the years of struggle which led up to the Adjustment Act of 1933 and the years of legislative, administrative, and judicial experience which have followed.(1)

Concessions to farmers are not a mere result of the distressed condition of agriculture; more important, they show that agriculture has developed political consciousness. The rebellion of farm groups has threatened the political representatives of farm states. Senators and Representatives from our essentially rural communities realize that concessions must be made to the farmer or the

(1) United States Department of Agriculture, Agricultural Adjustment, Agricultural Adjustment Administration, 1938-1938, (Washington, 1939), pp. 12-21

farmer will retaliate at the polls. Inasmuch as the farming industry encompasses some 30,000,000 people, an organized protest or attempt at political retaliation by farmers is bound to intimidate any existing administration in this country.

Many people question the justice of attempting to help the farmer. Some of them declare that the project violates the American traditions of democracy and individualism. Some claim that the action of the AAA is really out of harmony with the spirit of the Constitution. Inasmuch as the Supreme Court of the United States supports the activities of the AAA, these critics say that the Supreme Court is being intimidated by political pressure. Some go farther and declare that the farmer should be left to help himself. If the farmer cannot learn to cooperate, they say, if he cannot bring down his costs, if he cannot practice scientific farming and as a result obtain profitable prices, he should close up shop.(1)

In his book, The Seventeen Million, Ogden Mills make the following observation on this matter: There is no occupation to which the doctrine of individualism applies with greater force. By its very nature, agriculture

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(1) Atkins, Willard E.,Friedrich, A. A., and Wyckoff, Viola, Economic Problems of the New Deal, (New York, 1934), p. 31

is individualistic. Here we have no intricate corporate structures, no great aggregations of capital, no mass production. The farmer is the supreme individualist. He will be the last among us knowingly to surrender this liberty. But if he is to preserve his individuality and his liberty, if he is not to become a ward of the Government, if he is to continue lord of his own farm, he too must accept the mainspring of free enterprise, the competitive principle. Once comparable efforts are rewarded in agriculture to the same extent as in other industries, the farmer must go ahead under his own power--sink or swim.(1)

In contrast, the farmer's defenders point out that the Government has not hesitated in the past to help the railroad, the shipping and the airplane industries, through subsidies, direct and indirect. It has assisted manufacturing through tariff legislation. During the current depression it has helped to keep banks and insurance companies from failing. Why then, they ask, should the Government hesitate to help the farmer? Farming constitutes a direct means of subsistence for practically 30,000,000 of our population. These 30,000,000 people have suffered much, they find it difficult to organize and to act in concert in the manner of many business groups.

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(1) Mills, Ogden L., The Seventeen Million, (New York, 1937), pp. 105-106

They must be saved from the results that would follow inevitably from their dependence upon individual action. Thus runs the argument of those who favor helping the farmer.(1)

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(1) Atkins, Willard, E., Friedrich, A. A., and Wyckoff, Viola, Economic Problems of the New Deal, (New York, 1934) p. 31

CONCLUSION

Despite the improvement in agriculture since 1932--the rate of farm bankruptcies in 1939 was the lowest in eighteen years--many paint a rather gloomy picture of certain farm areas. The price of hogs is unusually depressed, and large surpluses of cotton and corn have accumulated. After a spurt at the outbreak of the war, farm exports have declined twenty per cent, except for cotton, and many prices have fallen drastically.

Moreover, many states in the Middle West continue to feel the effects of the droughts of 1934 and 1936. Widespread poverty still exists in many rural areas, particularly the South. It is difficult to determine the actual difference in income between farm and city; nevertheless it seems clear that the average farm family has fewer and poorer schools, libraries, and similar benefits than city folks.

The Seventh Fortune Round Table expresses the belief that by itself no agricultural legislation can give to the farmer the income he desires. Farm income today remains lower than in 1929, because the farmer has lost part of his former market on account of the industrial depression and the international situation. The loss of such markets, unaccompanied by a proportionate reduction in output, explains why farm prices remain comparatively low. Government can administer temporary aid, but the farm population as a whole cannot

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materially increase its income until industry provides a much greater degree of full employment.

Agriculture suffers also from a structural defect. Divided up into about seven million farm units, American farmers have not devised methods of organization enabling them to adjust production and marketing in relation to price as effectively as do industry and organized labor. The out-of-pocket expenses of industry are usually larger than those of agriculture; and when goods cannot be sold at a price sufficient to return the cost of labor and materials, industry inevitably reduces production. A farm family, in contrast, furnishes most of the labor and has no great payroll to meet. Rather than see existing land, machinery, and labor remain idle, most farmers continue to produce even at a very low return on their labor. Usually the farmer, moreover, loses all control of his product as soon as it leaves the farm, unlike many manufacturers.(1)

Down almost to the end of the nineteenth century the prevailing economic philosophy of the American people was one of laissez faire, of unrestricted individualism. With practically free land and apparently boundless national resources the economic virtues called for were initiative,

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(1) Fortune, Agricultural Policies and National Welfare, July, 1940

enterprise, energy, and skill to develop these resources and to convert the raw land and materials into consumable wealth. So long as here was enough for all, no disposition was manifested to curb the activities of the enterprisers who were building railroads, drilling oil wells, opening mines, cutting lumber, ranging the public domain, and in other ways building up their fortunes. But in the inevitable clash of conflicting interests that developed, protests began to be raised against the less defensible practices of these despoilers, and when the first national inventory of our natural and human resources ever made revealed a startling depletion of our patrimony, the protests swelled into a cry for regulation and control.

The first protests after the Civil War had been made by the farmers who felt themselves aggrieved by high freight rates and who demanded public regulation of the railroads.

To no group has more governmental assistance been granted than to the distressed farmers, both by the guaranteeing of easy credit through the Land Banks and the organization of more efficient marketing agencies through the Farm Board, and by helpful advice and guidance through state agricultural colleges and experiment stations and county advisors. Even industry, usually distrustful of government interference, has long accepted tariff favors, and is now learning to demand

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assistance from the increasingly efficient service of the Department of Commerce in marketing in foreign fields its growing surplus of manufactures.(1)

While an unrestrained policy of laissez faire has permitted the growth of some undesirable features in the political, social, and economic organism, there are many and hopeful evidence at present not merely of the recognition of the need of public regulation, but of its actual application. There is also a growing sense of responsibility on the part of the average citizen and man of wealth.(2)

The farmer at one time was self-sufficient. He not only produced his own foodstuffs, he produced his own fabrics and clothing. Weaving and knitting were as much the activities of the homestead as farming. Sheep furnished him wool, the cattle he slaughtered furnished him leather, a wood lot furnished him fuel for heat and cooking. The farmer of the past, in most instances, spent the part of the year when farming operations could not be performed because of the season, operating grist-mills or lumbermills, or working at some craft or trade. Such a life had only the insecurities which nature itself seems to impose upon human activities, and the possible

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(1) Bogart, Ernest L., Economic History of the American People, (New York), 1931, pp. 772-774.

(2) Ibid, p. 783

damage from storm and drought, from locusts and hail, was reduced by storage of supplies and diversification of production. The threat of dispossession and unemployment which the dependence of the farmer upon the cash market has brought into farming was then unknown. Today farmers have abandoned not only the production of fabrics and clothing, but on about twenty per cent of the farms in the country there is not even a cow or a chicken, on thirty per cent there is not a single hog, and on approximately ninety per cent not even one sheep. What is more, on many of the farms in our banner agricultural states no gardens are kept and almost every article of food is purchased at the store. If the unemployed of the cities turn to that kind of farming, they will merely have exchanged one kind of economic insecurity for another. What is called subsistence farming, however, is a step, though only a step, in the right direction.[1]

There have always been migratory agricultural workers following the crops in this country, but the new migrants are different. Those of earlier days were single men, who liked to be on the move, who chose a mobile way of life, who had no desire to settle down and fit themselves into a community social scheme. The new migrants are evicted American farm families who want to get another piece of land more than

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(1) Borsodi, Ralph, Flight from the City, (New York, 1933), pp. 125-126

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(1) Borsodi, Ralph. Flight from the City. (New York, 1933), pp. 125-126

anything else in the world, but instead find all the good land grabbed by the big fellows who grudge them thirty cents an hour or less for helping with the harvest.

Investigations and revelations, set off by Steinbeck's Grapes of Wrath, which spotlighted the problem as Uncle Tom's Cabin did that of slavery, have recently revealed this clearly as a national problem. Senator Robert M. LaFollette's subcommittee of the Senate Education and Labor Committee and Representative John H. Tolan's special House committee are continuing serious and searching probes into the problem.

These investigations reveal the stark and frightening fact that many states are today the scenes of dispossession, others are receiving great influxes of migrants, and still others foresee the early extension of the pattern to and within their boundaries.

The migrants come from poor homes in the Dust Bowl and also from rich lands in that most stable of all agricultural areas, the Corn Belt, where mechanization is estimated to have pushed more than six per cent of Iowa's farm families off their land in the last three years. They come from the Cotton Belt, the Wheat Belt, from all areas.

Many are the causes of this exodus. The waste and exhaustion on our soil through overgrazing and one-crop planting,

unchecked for more than a century, made thousands of acres ready victims to drought, dust, grasshoppers, wind, and flood, which destroyed them for any owners. Much of the land settled in the northern part of the lake states was poor to begin with, and this has been the real problem in that region, rather than erosion. In the years 1930 to 1939 more than one and a half million farms were lost by their owners because of inability to meet mortgage or tax payments. This represents more than one quarter of all the farms in the United States.

But outstanding among all causes contributing to the present agricultural problem of the dispossessed is the mechanization of American farms.

Because farming was a hand industry, the demand for farm laborers was great. This demand was met in large part by slavery and the indenture system, but free workers were also employed as farm hands. They were paid almost as much as tradesmen in some cases. The usual rate for a day's work on the farms in the years 1830 to 1840 was $1.00 for a "sunrise to sunset" day.[1] From the doggedly persistent struggle of organized labor to break down the "sun to sun" workday to the serious consideration of a statutory 30-hour workweek runs the century's record on hours of labor. The thirteen and fourteen hour day was practiced and accepted as a matter of course

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(1) United States Department of Labor, No. 605 Revised Edition Bulletin of the Bureau of Labor Statistics, Labor Through the Century, 1833-1933, (Washington, 1934), p. 11

in the early days because agriculture, predominantly the basic industry, set work standards.(1)

The typical farm in the traditional American sense has always been the "family-size farm", ranging from forty to one hundred and sixty acres, worked by its owner and his family, with possibly a hired man, treated as part of that family. Today, found in increasing numbers throughout the United States are large industrialized concerns, often corporately-owned, with huge acreages handled by hard-headed business men frequently without previous experience in farming, which use many machines, few work animals, and few humans except in peak harvest time, when great hordes of "laborers" are temporarily employed.

Large-scale farm managers, unable to regulate other overhead charges such as transportation of produce to markets, rent, interest, power and water, fertilizer and machinery, insist on their right to control wages and to hire and fire arbitrarily to meet fluctuating economic conditions. They beat down hourly rates of pay by recruiting an excess of labor and accepting those who will work for the least. They demand the release of "reliefers" from WPA and relief rolls to work for whatever wages they wish to pay, and they often prefer migrants over resident laborers because migrants will be "glad to find a home job" and are also less likely to be unionized. The

(1) United States Department of Labor, No. 605 Revised Edition Bulletin of the Bureau of Labor Statistics, Labor Through The Century, 1833-1933, (Washington, 1934), p. 17

managers themselves are organized in associations which control labor policies, but they brand any attempts of their workers to organize as the activities of "reds", "radicals", and "communists". This attitude makes for an antagonism between employer and employee and provides no possible basis for understanding or negotiation.

How does mechanization work to make possible so drastic a change in the farm picture? The following is a quotation from Factories in the Field by Carey McWilliams:

The annual report of the Associated Farmers for 1937 contains several significant statements. The organization was formed, according to the president,"to fight Communism, but today, by force of national developments, it is necessarily opposing unionization of farm labor on any basis." Continuing, he states that "The program of the organization is being converted from a defensive to an aggressive plan of action. We cannot wait until racketeers begin organizing the packing houses and the pickers in the fields. We must oppose them now, before it is too late." The organization, he said, no longer regards itself as a temporary group formed to meet an emergency, but as a permanent organization dedicated to prevent the unionization of farm labor. "If the fight wipes out our entire crop, it would be cheap." The new offensive program could not be explained to the members for "strategic

reasons" but they were asked to accept it implicitly on the "good faith" of the leaders.(1)

Recent developments in manufacture of small, all-purpose tractors at low cost have been the important means of changing farm sizes, operations, and employment. The Farmall tractor, applicable to all field operations, needing few men to handle it and designed as a complete replacement of horses, was introduced in 1924. In 1933, a smaller and cheaper Farmall was put on the market, and even less expensive ones have appeared since.

Thus, in the last seven years small farmers--both tenants and owners--able to buy these all-purpose machines--have found themselves equipped to expand operations while cutting their human help.

Tractors are moving throughout the Southeast. Word is passed from cabin to cabin, from the Georgia cotton fields to the Carolina sea islands, north to the Alabama and Tennessee hills, and west even to Louisiana, Mississippi, and Arkansas, that the only work for the obscure, disheartened, and landless people of the area will be in the wake of the machines in harvest time. Then they will work for a pittance from "can to can't". In all the agricultural areas of peninsular

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(1) McWilliams, Carey, <u>Factories in the Field</u>, (Boston, 1939) pp. 262-263

Florida, development of large-scale industrialized farming is under way with tractors, gang ploughs, dusting by airplanes, thousands of acres under intensive cultivation, and migratory labor forces hired under pitiful conditions.

In wheat areas of the nation, tractors and combines have taken over the fields, stepping up acreage that can be handled by one man, and one unit of power and machinery, from 200 to 800 acres.

The Bureau of Agricultural Economics states that a conservative estimate points to the displacement of 350,000 to 400,000 more workers in agriculture in the next decade by the adoption of machines which have already been developed. With an average family numbering 4.5 persons, these displaced workers will have between 1,225,000 and 1,400,000 dependents affected by their plight.

Figures recently submitted to the Temporary National Economic Committee, investigating the migrant problem, clearly show the shift of farmers' money into machines rather than wages.

This, then, is the situation, these are the conditions that the Federal Government and State and local agencies are seriously investigating today. The questions--now that the unhappy, shameful picture is growing clear--are "What can be done?" and "Who should do it?"

In placing responsibility, it seems pertinent to ask, "Who needs these people?". Certainly those to whom they are important should share the burden of their subsistence. The answer, of course, is obvious. They are needed, at least a certain number of them, by an agricultural system which freely admits its dependence upon large bodies of labor for very short periods of time. They are also needed, all of them, by government--national, state, and local--as good citizens rather than sore plague spots breeding disease, social unrest, and delinquency. Thus it becomes a problem to be solved by government and large-scale agriculture in partnership. The latter has shown little inclination to help as yet.

Vigorous action along several broad lines of attack are needed. First, we must push the development of good new land for the farmers we shall need in the future who are now on poor land, or who are working good land so hard that erosion and depletion of soil fertility are becoming problems. Second, we must strive to make more secure the tenure of farmers who can stay on the land if given an opportunity to take advantage of the technical improvements so quickly adopted by their bigger neighbors. Third, we must bring to an end the present wasteful, vicious system of exploitation of the unprotected, helpless farm laboring population. Fourth,

we must face the greatest and most difficult fact that most of our disadvantaged rural people must look outside of agriculture for a decent living. In the face of our present urban and industrial unemployment, this is a difficult problem indeed.

For the migratory group, the principal problems are a place to live and a way of life. There are at present many immediate and temporary programs, such as Farm Security Administration camps and housing units and grants, and some special health provisions, designed to alleviate the more acute distressed conditions. Starved by lack of sufficient appropriations, these programs are pitifully inadequate. They must be continued and expanded, but for any fundamental reform and remedy it seems plausible to make a three-way division of the unknown total of agricultural migrants. One group will continue in seasonal agriculture as wage laborers; one must somehow be resettled to farm for itself; and the third group--by far the largest--must be diverted from agriculture, in which it does not belong and cannot make a living, to some other form of livelihood.

For those who are to remain seasonal laborers the first requirements are more security of work and greater stability of residence. A program of housing should be worked out to permit the laborers to provide homes for their families

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For those who are to remain seasonal laborers the first requirements are more security of work and greater stability of residence. A program of housing should be worked out to permit the laborers to provide homes for their families

and schooling for their children while they work from the home base, over a reasonable radius, following the crops in a systematic and routine way through the aid of accurate and complete reporting of harvesting employment possibilities and crop conditions. At present, migrants must rely almost entirely upon the "grapevine" in deciding where to go next to look for work. This, of course, leads to both gluts and famines in the labor market.

For this group, as for all agricultural workers, there should definitely be an extension of social-security laws, wages-and-hours laws, and the labor-relations act. This would undoubtedly ameliorate some of the harsher aspects of prevailing conditions and afford them legal protection in partially working out their own solutions to difficulties.

The exemption of agriculture from social legislation has greatly aided the large industrialized corporate farm, which is enabled to exploit the abundant supply of cheap farm labor.[1] Carey McWilliams, in his book, Factories in the Field, has given a startling picture of the farm-labor situation in California. He feels, however, that in spite of the ugly past there is hope in the future. The following is a quotation from his concluding chapter:

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The significance of the present situation is that it is now theoretically possible to solve the farm-labor problem in California. With the influx of thousands of transients, we now have a superabundance of skilled agricultural labor. The race problem has, in effect, been largely eliminated. The growers themselves, through their various labor exchanges and pools, have demonstrated that the demand for farm labor can be estimated with sufficient accuracy for purposes of regulating the supply. The migratory camps have proved that a measure of stabilization can be achieved or at least that large groups of workers can be stabilized within a definite area. The introduction of new crops has now made it feasible to extend the period of employment almost throughout the year, assuming that the supply of labor is regulated. But these developments are merely signposts along the way. The real solution involves the substitution of collective agriculture for the present monopolistically owned and controlled system. As a first step in the direction of collectivization, agricultural workers must be organized. Once they are organized, they can work out the solutions for most of their immediate problems. They can, for example, regulate employment through hiring halls similar in operation to those used on the waterfront with such great success. With public encouragement and assistance, they can solve most of the

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immediate problems of housing, education and health conditions. A partial solution will be achieved when subsistence homesteads have grown up about the migratory camps; such an arrangement should bring about a large measure of permanent stabilization. But the final solution will come only when the present wasteful, vicious, undemocratic and thoroughly antisocial system of agricultural ownership in California is abolished. The abolition of this system involves at most merely a change in ownership. The collective principle is there, large units of operation have been established, only they are being exploited by private interests for their own ends. California agriculture is a magnificent achievement, in its scope, efficiency, organization and amazing abundance. The great farm valleys of California, rescued from sage-brush and desert, are easily among the richest agricultural regions of the world. The anachronistic system of ownership by which they are at present controlled must be changed before the valleys can come into their own. That day, as it now seems, is far distant. In the meantime, the dust-bowl refugees, unlike the pioneers of '49, have made the long trek West to find not gold but labor camps and improvised shanty towns. It is just possible that these latest recruits for the farm factories may be the last, and that out of their struggle for a decent life in California may issue a new type of agricultural economy for the West and for America.(1)

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(1) McWilliams, Carey, Factories in the Field, (Boston, 1939), pp. 324-325

There exists the necessity for a public policy of soil conservation, the need for a mechanism to improve farm marketing and reduce erratic fluctuations in farm prices, but as for the desirability of government's endeavoring, directly or indirectly, to increase farm income apart from that of the nation as a whole, is a question.

The majority of the dirt farmers favor the existing agricultural program. Admitting that it might be improved in certain directions, they do not propose to give it up until something better is offered. Other members, including several dirt farmers, fear that instead of really assisting agriculture, this program is preventing readjustments necessary for a healthy agriculture and is injuring national recovery as a whole. They fear also that the AAA methods involve serious dangers as to the future of free enterprise and democracy.

Under the Triple A the farmers have been and are their own administrators and in the process of administering there has been created what is, as Mr. Wallace calls it, "a hierarchy"--a farm organization that reaches directly from his desk in the Department of Agriculture down to 75% of the farmers and the last rural township in the nation.(1)

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(1) High, Stanley, Roosevelt and Then? (New York, 1937), p. 203

The Fortune Round Table as a whole, with one or two exceptions noted, unanimously agreed to the following:

1. Soil Conservation. This must be a public responsibility; the work of the Soil Conservation Service is sound and should be extended; farm wood lots should be exempted from local taxation; greater emphasis should be placed by the AAA on soil-improvement practices and stricter compliance with its program if the work is extended.

2. Production Control. Greater stability of agricultural prices is desirable; but agricultural prices should not be pegged so high as to subsidize competing products. Government price-fixing devices and schemes to guarantee costs of production should be condemned.

3. National-recovery Conference. The next administration should call a conference of farm, labor, industrial, and other leaders to review all subsidies and restrictive devices, with a view to determining what contribution each group should make to industrial recovery.

4. Taxation. A commission should be set up to study Federal and State taxation, particularly as they affect the farmer.

5. Interstate Trade Barriers. These are condemned along with legislation penalizing one domestic service or commodity for the benefit of another.

6. Restoration of farm exports. This can be attained at the end of the war through the free flow of commodities.

7. Present rehabilitation and tenancy program. A good beginning has been made.

8. Distribution Costs. All farm and consumer groups should join in attacking costs of distributing foodstuffs; the system of distributing and pricing fluid milk should be improved.

9. New Industrial Uses. Increased research in discovering new outlets for farm products is sound.(1)

If we can make good use of each land area, develop the idea of small farm-factories, eliminate chain store or corporate ownership of farms, establish new and better homesteads connected with crops, establish a government subsidy of direct farmer to consumer sales, organize the workers, and assure them proper hours, wages and working conditions in all-year jobs, we shall have gone a long way toward solving our problem.

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(1) Fortune, Agricultural Policies and National Welfare, (July, 1940)

One of the major objectives of the Farm Credit Administration is to assist farm families in reaching the status of farm-home owners free from debt. Farmers made considerable progress toward this objective in 1939.

About 618,000 farmers had Federal Farm Land Bank loans outstanding on December 31, 1939. The loans totalled $1,905,000,000, representing a decrease of about 3.9% as compared to a year earlier. In seven years since the Farm Credit Administration was organized, the total principal repayments of all types on Land Bank and Commissioner loans amounted to more than $574,000,000. Payments in full have increased from less than 3,000 loans in 1933 to approximately 27,000 a year in 1939.

For the benefit of borrowers in distressed areas, Federal Land Banks in 1939 suspended all foreclosure action on Land Bank and Commissioner loans. By the end of 1939 more than 292,000 farmers had become members of their Productive Credit Associations. About $75,000,000 was borrowed from Federal Credit Unions in 1939. The increase in number, membership, shares, and volume of business done by the Unions has been greater than in the past. Federal Credit Unions have now reached the point where instruction of members and perfection of operating practices are as important as further expansion. A large share of the efforts of the Credit Union

Section in 1939 was directed toward these objectives.[1]

The AAA program became fully operative for the first time in 1939. In that year the crop allotments were available in time for most producers to take full advantage of them, and marketing quotas were improved by producers in some areas and disapproved in others. In 1939 producers demonstrated that they could work together on a national scale to adjust crop production effectively, and that they would cooperate in the Ever-Normal Granary Program.

The program in 1939 also demonstrated its essentially democratic nature. Provisions of the program are available for use if farmers wish them, but only if farmers do wish them. If producers generally are opposed to applying the conservation program, they need not participate, and on marketing control measures, farmers have the power through referendums to make quotas effective or not effective. For example: tobacco growers in two of the principally producing areas decided against using marketing quotas for the year 1939, and the 1939 tobacco crop was grown and marketed without the quotas which had been in effect the previous year. For 1940 these growers voted to use the marketing quotas again.

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(1) The Seventh Annual Report of the Farm Credit Administration, 1939, (Washington, 1940), pp. 2-15

In 1939 the soil-building provisions of the AAA program were adapted more closely to the needs of the farmers. Working on their own land, farmers throughout the Nation are improving the soil on a larger scale than ever before. In short, in 1939 the AAA farm program demonstrates that it is essentially a program of protection. It protects consumers. It protects the soil. It protects the farmers. It protects our democracy.(1)

The AAA program has protected the farmer against world-wide economic forces during the years that it has been in effect, but the full extent of this protection was realized only when the war broke out and our foreign trade in agricultural products was sharply curtailed without the protection offered to farmers by the Ever-Normal Granary Program. Without the acreage allotments, loans and marketing quotas, and measures such as export subsidy, farmers today would be in a most precarious position. With the protection afforded by these measures, farm income has been maintained at much higher levels than would have been possible without the farm program. Returns to farmers have been increased largely through supported prices and also through conservation and parity

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(1) United States Department of Agriculture, Agricultural Adjustment, 1939-1940, Agricultural Adjustment Administration, (Washington, 1941), p. 3

payments. Farm buying power in 1939 was 72% larger than in 1932 and was equal to that in 1929. Without a farm program, it is likely that the national farm income would have been two and a half billion dollars less in 1940 than it actually was.

Not only have prices and income in general been protected, but under the crop insurance for the wheat program producers of the crop have been assured that they will have wheat to sell, even though adverse weather or other unavoidable hazard reduces or destroys their crop.

Through the live-at-home programs, farmers have been encouraged to grow more food and feed and to improve their home living. The inclusion of a home-garden practice in the program in 1940 has given additional impetus to the work.[1]

Agriculture at the beginning of the defense program found itself in an excellent state of preparedness. But in the future agriculture faces some problems as difficult as those facing any of our other industries. The one that is basic is the loss of export outlets for several of our major crops. The war thus far has cut off a large part of these markets and undoubtedly will continue to do so until there is peace. The loss of export markets means that we are going to have to make

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(1) United States Department of Agriculture, Agricultural Adjustment, 1939-1940, Agricultural Adjustment Administration, (Washington, 1941), p. 7

some important adjustments in our agriculture, and probably the greatest changes will take place in the cotton belt. We have made substantial progress in adjusting the production of cotton to the demand, but world conditions may require some further adjustments. Any change to the farming system in such a large area of the country will, of course, have repercussions on all our agriculture. Our task is not to impede these shifts, but rather to make certain that the changes are made in an orderly manner, and that the solution of the problem in one area does not lead to a greater problem somewhere else.

Looking beyond the immediate future to the conclusion of the present hostilities and the tapering off of the defense program, we can see that the problems of agriculture are likely to be more acute than they have ever been, and the need for a strong farm program is going to be greater than ever. The nation will then be faced with the problem of absorbing into other employment large numbers who have been employed in defense industries. Without such reemployment, there would be a diminishing national income with an accompanying decline in farm income.

The present adjustment program provides machinery whereby farmers, individually and collectively, can make their maximum contribution in the working out of the problems which

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The present adjustment program provides machinery whereby farmers, individually and collectively, can make their maximum contribution in the working out of the problems which

lie ahead. The democratic methods of the program's administration and the opportunity for face to face discussions about problems by small groups of farmers, city workers, and business men offer an unparalleled opportunity for making a national adjustment in a democratic way.(1)

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(1) United States Department of Agriculture, Agricultural Adjustment, 1939-1940, Agricultural Adjustment Administration, (Washington, 1941), pp. 9-10

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